

FRANKLIN UNIVERSAL TRUST
Form N-CSRS
May 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-05569

Franklin Universal Trust

(Exact name of registrant as specified in charter)

One Franklin Parkway, San Mateo, CA 94403-1906

(Address of principal executive offices) (Zip code)

Craig S. Tyle, One Franklin Parkway, San Mateo, CA 94403-1906

Edgar Filing: FRANKLIN UNIVERSAL TRUST - Form N-CSRS

(Name and address of agent for service)

Registrant's telephone number, including area code: (650) 312-2000

Date of fiscal year end: 8/31

Date of reporting period: 2/28/18

Item 1. Reports to Stockholders.

Semiannual Report

February 28, 2018

Franklin Templeton Investments

Why choose Franklin Templeton Investments?

Successful investing begins with ambition. And achievement only comes when you reach for it. That's why we continually strive to deliver better outcomes for investors. No matter what your goals are, our deep, global investment expertise allows us to offer solutions that can help.

During our more than 70 years of experience, we've managed through all kinds of markets—up, down and those in between. We're always preparing for what may come next. It's because of this, combined with our strength as one of the world's largest asset managers that we've earned the trust of millions of investors around the world.

Contents

Semiannual Report

<u>Franklin Universal Trust</u>	2
<u>Performance Summary</u>	5
<u>Important Notice to Shareholders</u>	6
<u>Financial Highlights and Statement of Investments</u>	7
<u>Financial Statements</u>	17
<u>Notes to Financial Statements</u>	21
<u>Annual Meeting of Shareholders</u>	27
<u>Dividend Reinvestment and Cash Purchase Plan</u>	28
<u>Shareholder Information</u>	30

Visit franklintempleton.com/investor/products/products/closed-end-funds for fund updates, to access your account, or to find helpful financial planning tools.

Not FDIC Insured | May Lose Value | No Bank Guarantee

Semiannual Report

Franklin Universal Trust

Dear Shareholder:

This semiannual report for Franklin Universal Trust covers the period ended February 28, 2018.

Your Fund's Goal and Main Investments

The Fund's primary investment objective is to provide high, current income consistent with preservation of capital. Its secondary objective is growth of income through dividend increases and capital appreciation.

Performance Overview

For the six months under review, the Fund's cumulative total returns were -2.70% based on net asset value and -3.23% based on market price, as shown in the Performance Summary on page 5. For comparison, the Credit Suisse (CS) High Yield Index, which is designed to mirror the investable universe of the US dollar-denominated high yield debt market, produced a +1.21% total return,¹ and utilities stocks, as measured by the Standard & Poor's (S&P®) 500 Utilities Index, which tracks all electric utility stocks in the broad S&P 500® Index, had a total return of -9.18% for the same period.²

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Economic and Market Overview

The US economy continued to grow during the six months under review. The economy expanded in 2017's fourth quarter, though at a slower pace compared to the third quarter as lower inventory investment and higher imports partially offset the contributions of growth in consumer spending, business and housing investment, exports, and government spending. The manufacturing and services sectors expanded during the period. The unemployment rate declined from 4.4% in August 2017 to

4.1% at period-end.³ Monthly retail sales rose during the period's first half but declined in the second half, largely due to lower motor vehicle and gasoline sales. Annual inflation, as measured by the Consumer Price Index, increased from 1.9% in August 2017 to 2.2% at period-end.³

The US Federal Reserve (Fed) began reducing its balance sheet in October 2017 and raised its target range for the federal funds rate 0.25% to 1.25%–1.50% in December. The Fed left its target rate for the federal funds rate unchanged at its January 2018 meeting, but expressed that it anticipated inflation to rise in 2018 and stabilize around the 2% target over the medium term. In February, Jerome Powell succeeded Janet Yellen as Fed Chair and spoke before Congress for the first time. He indicated that the Fed saw signs of a continued strong labor market and economic growth. He reiterated the Fed's intention to gradually raise interest rates in an effort to keep the economy from overheating as inflation increases toward the Fed's 2% target. However, he noted that there was no evidence of the economy overheating and that he had yet to see a clear move upward in wages.

The 10-year Treasury yield, which moves inversely to its price, increased during the period. After declining at the beginning of the period, the yield rose amid easing concerns about Hurricane Irma's economic impact, the Fed's balance sheet normalization beginning in October and the passage of the tax reform bill in December. Although some factors weighed on the Treasury yield at certain points during the period, including tensions between the US and North Korea, indications of higher inflation drove the yield higher in the last two months of the period, reaching a four-year high in February 2018. Overall, the 10-year Treasury yield rose from 2.12% at the beginning of the period to 2.87% at period-end.

Investment Strategy

We invest primarily in two asset classes: high yield bonds and utility stocks. Within the high yield portion of the portfolio, we

1. Source: Credit Suisse Group.

2. Source: Morningstar.

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

3. Source: US Bureau of Labor Statistics.

See www.franklintempletondatasources.com for additional data provider information.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 8.

use fundamental research to invest in a diversified portfolio of bonds. Within the utility portion of the portfolio, we focus on companies with attractive dividend yields and with a history of increasing their dividends.

Manager's Discussion

High Yield Corporate Bonds

The Fund underperformed relative to the CS High Yield Index during the period. The Fund's largest relative detractor was our underweighting in the energy sector. Our yield curve positioning also detracted from relative returns as interest rates increased over the period. In contrast, overall security selection was a relative contributor, driven primarily by our selection within the utility and building industries. Our ratings quality allocation also contributed to relative results over the period, primarily due to an underweighting in CCC-rated corporate bonds.

Portfolio Composition

2/28/18

	% of Total Investments*
Corporate Bonds	67.4%
Utilities Common Stocks	28.0%
Natural Resources Common Stocks	1.2%
Materials Common Stocks	1.1%
Convertible Bonds	0.2%
Convertible Preferred Stocks	0.1%
Transportation Common Stocks**	0.0%
Escrows and Litigation Trusts**	0.0%
Short-Term Investments & Other Net Assets	2.0%

*Percentage of total investments of the Fund. Total investments of the Fund include long-term and short-term investments and other net assets, excluding long-term debt issued by the Fund.

**Rounds to less than 0.1%.

Utility Stocks

Utility stocks, as measured by the S&P 500 Utilities Index, had a -9.18% return during the period, compared to a +10.84% return for the S&P 500 Index.² This underperformance occurred primarily due to two economic circumstances. First, the passage of federal tax legislation in December 2017, while very positive for US corporations, was viewed by investors as being less beneficial for the utilities sector. As regulated entities, utilities are obligated to pass through the savings of lower federal taxation to their customers and should generally not see the immediate positive adjustments to corporate earnings that other sectors of the economy could generate. Secondly, inflationary signals within the US and globally seem to have been increasing in recent months, leading to higher

interest-rate levels. Thus, in our opinion, utilities likely underperformed the overall stock market given the sector's historically high correlation to interest rates and the movements of the bond market. Overall, we believe the financial health of the utilities sector remains intact, and although the sector is not a direct beneficiary of tax reform, the sector may benefit indirectly with potential increased growth opportunities resulting from a more business-friendly regulatory environment.

Top 10 Holdings*

Based on Total Investments**

2/28/18 vs. 8/31/17

Issuer	2/28/18
Sempra Energy	2.1%
NextEra Energy Inc.	2.1%
Dominion Energy Inc.	1.9%
American Electric Power Co. Inc.	1.9%
CMS Energy Corp.	1.7%
Duke Energy Corp.	1.4%
Pinnacle West Capital Corp.	1.3%
CenterPoint Energy Inc.	1.3%
Navient Corp.	1.2%
Alliant Energy Corp.	1.2%
Issuer	8/31/17
Dominion Energy Inc.	2.4%
NextEra Energy Inc.	2.3%
Sempra Energy	2.2%
American Electric Power Co. Inc.	2.1%
Pinnacle West Capital Corp.	1.9%
Duke Energy Corp.	1.9%
Edison International	1.8%
CenterPoint Energy Inc.	1.4%
Navient Corp.	1.3%
PG&E Corp.	1.3%

*Excludes money market funds.

**Percentage of total investments of the Fund. Total investments of the Fund include long-term and short-term investments and other net assets, excluding long-term debt issued by the Fund.

FRANKLIN UNIVERSAL TRUST

Thank you for your continued participation in Franklin Universal Trust. We look forward to serving your future investment needs.

Sincerely,

Christopher J. Molumphy, CFA

Senior Portfolio Manager

Glenn I. Voyles, CFA

Portfolio Manager

The foregoing information reflects our analysis, opinions and portfolio holdings as of February 28, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

CFA® is a trademark owned by CFA Institute.

Performance Summary as of February 28, 2018

Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Total returns do not reflect any sales charges paid at inception or brokerage commissions paid on secondary market purchases. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities.

Performance as of 2/28/18¹

	Cumulative Total Return ²		Average Annual Total Return ²	
	Based on NAV ³	Based on market price ⁴	Based on NAV ³	Based on market price ⁴
6-Month	-2.70%	-3.23%	-2.70%	-3.23%
1-Year	+1.59%	+1.61%	+1.59%	+1.61%
5-Year	+34.04%	+26.68%	+6.03%	+4.84%
10-Year	+107.52%	+112.06%	+7.57%	+7.81%

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Share Prices

Symbol: FT	2/28/18	8/31/17	Change
Net Asset Value (NAV)	\$7.83	\$8.24	-\$0.41
Market Price (NYSE)	\$6.82	\$7.24	-\$0.42

Distributions (9/1/17 - 2/28/18)

Net Investment

Income

\$0.1920

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. As prices of bonds in a fund adjust to a rise in interest rates, the Fund's share price may decline. Investments in lower rated bonds include higher risk of default and loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. In addition to having sensitivity to other factors, securities issued by utility companies have historically been sensitive to interest rate changes. When interest rates fall, utility securities prices, and thus a utilities fund's share price, tend to rise; when interest rates rise, their prices generally fall. For stocks paying dividends, dividends are not guaranteed, and can increase, decrease or be

totally eliminated without notice. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.

1. The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 8/31/18. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.
2. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Assumes reinvestment of distributions based on net asset value.
4. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.

FRANKLIN UNIVERSAL TRUST

Important Notice to Shareholders

The Fund's Board previously authorized an open-market share repurchase program, pursuant to which the Fund may purchase Fund shares, from time to time, up to 10% of the Fund's common shares in open-market transactions, at the discretion of management. This authorization remains in effect.

6 Semiannual Report

franklintempleton.com

Financial Highlights

	Six Months Ended February 28, 2018 (unaudited)	2017	Year Ended August 31,			2013
			2016	2015	2014	
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 8.24	\$ 7.67	\$ 7.11	\$ 8.34	\$7.61	\$ 7.47
Income from investment operations:						
Net investment income ^a	0.20	0.38	0.39	0.45	0.47	0.43
Net realized and unrealized gains (losses)	(0.42)	0.57	0.64	(1.21)	0.73	0.17
Total from investment operations	(0.22)	0.95	1.03	(0.76)	1.20	0.60
Less distributions from net investment income	(0.19)	(0.38)	(0.47)	(0.47)	(0.47)	(0.46)
Net asset value, end of period	\$ 7.83	\$ 8.24	\$ 7.67	\$ 7.11	\$ 8.34	\$ 7.61
Market value, end of period ^b	\$ 6.82	\$ 7.24	\$ 6.84	\$ 6.10	\$ 7.39	\$ 6.76
Total return (based on market value per share) ^c	(3.23)%	11.81%	20.76%	(11.57)%	16.71%	(2.45)%
Ratios to average net assets^d						
	1.97%	2.00%	2.13%	1.97%	1.97%	2.34%

Expenses before waiver and payments by affiliates						
Expenses net of waiver and payments by affiliates	1.97% ^{e,f}	1.99% ^e	2.12% ^e	1.97% ^{e,f}	1.97% ^{e,f}	2.34%
Net investment income	4.85%	4.81%	5.48%	5.63%	5.76%	5.58%

Supplemental data

Net assets, end of period (000 s)	\$196,724	\$206,965	\$192,682	\$178,747	\$209,674	\$191,223
Portfolio turnover rate	14.25%	23.25%	21.13%	20.30%	18.25%	21.95%
Total debt outstanding at end of period (000 s)	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Asset coverage per \$1,000 of debt	\$4,279	\$4,449	\$4,211	\$3,979	\$4,495	\$4,187
Average amount of senior rate fixed Notes per share during the period	\$2.39	\$2.39	\$2.39	\$2.39	\$2.39	\$1.68

^aBased on average daily shares outstanding.

^bBased on the last sale on the New York Stock Exchange.

^cTotal return is not annualized for periods less than one year.

^dRatios are annualized for periods less than one year.

^eBenefit of expense reduction rounds to less than 0.01%.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

FRANKLIN UNIVERSAL TRUST

Statement of Investments, February 28, 2018 (unaudited)

	Country	Shares/ Warrants	Value
Common Stocks and Other Equity Interests 39.6%			
Energy 1.5%			
^a Chaparral Energy Inc., A	United States	23,303	\$ 547,621
^{a,b} Chaparral Energy Inc., A, 144A	United States	214	5,029
^a Chaparral Energy Inc., B	United States	5,868	137,898
^a CHC Group LLC	Cayman Islands	10,468	91,595
Enbridge Inc.	Canada	39,360	1,252,435
^a Energy XXI Gulf Coast Inc., wts., 12/30/21	United States	5,433	163
^a Goodrich Petroleum Corp.	United States	19,379	201,154
^a Halcon Resources Corp.	United States	52,355	316,748
^a Halcon Resources Corp., wts., 9/09/20	United States	4,668	3,314
^a Linn Energy Inc.	United States	11,768	458,952
^a Midstates Petroleum Co. Inc.	United States	326	