

FRANKLIN UNIVERSAL TRUST  
Form N-CSRS  
May 02, 2019

**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**

(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: **2/28/19**

**Item 1. Reports to Stockholders.**

**Semiannual Report**

February 28, 2019

**Internet Delivery of Fund Reports Unless You Request Paper Copies:** Effective January 1, 2021, as permitted by the SEC, paper copies of the Fund's shareholder reports will no longer be sent by mail, unless you specifically request them from the Fund or your financial intermediary. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you have not signed up for electronic delivery, we would encourage you to join fellow shareholders who have. You may elect to receive shareholder reports and other communications electronically from the Fund by calling (800) 416-5585 or by contacting your financial intermediary.

You may elect to continue to receive paper copies of all your future shareholder reports free of charge by contacting your financial intermediary or, if you invest directly with a Fund, calling (800) 416-5585 to let the Fund know of your request. Your election to receive reports in paper will apply to all funds held in your account.

Franklin Templeton

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.

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Visit [franklintempleton.com/investor/products/products/closed-end-funds](http://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, 2019.

### **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 +4.50% based on net asset value and +5.79% 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 U.S. dollar-denominated high yield debt market, posted a +1.66% total return,<sup>1</sup> 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, posted a total return of +8.54% for the same period.<sup>2</sup>

*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 U.S. economy grew during the six-month period. The economy grew in 2018's fourth quarter, though at a slower pace from the previous quarter. Growth in consumer spending, business investment and inventory investment were partly offset by a decline in housing investment and an increase in imports (a subtraction from growth calculation). The manufacturing and services sectors expanded during the period. The unemployment rate was 3.8% in August 2018, and though

it varied during the period, it remained unchanged at period-end.<sup>3</sup> The annual inflation rate, as measured by the Consumer Price Index, decreased from 2.7% in August 2018 to 1.5% at period-end.<sup>3</sup>

The U.S. Federal Reserve (Fed) raised its target range for the federal funds rate by 0.25% two times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of its plan to normalize monetary policy. At its January meeting, the Fed held its target range for the federal funds rate unchanged and mentioned it would be patient in deciding further rate adjustments. Furthermore, the Fed's January meeting minutes indicated most policymakers favored announcing the end of balance sheet normalization by the end of 2019.

The 10-year Treasury yield, which moves inversely to its price, decreased during the period. The yield rose to multi-year highs during the period's first half amid investor concerns about higher inflation and the Fed's interest-rate path. Better-than-expected U.S. economic reports and optimism surrounding trade talks between U.S. and China also pushed the yield higher. However, some factors weighed on the Treasury yield at certain points during the period, including concerns about political turmoil in Italy, political uncertainties in the U.S., U.S. trade disputes with China and other trading partners, slowing global economic growth and the Fed's indications of a cautious approach to its monetary policy decisions. Overall, the 10-year Treasury yield declined from 2.86% at the beginning of the period to 2.73% 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 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.

1. 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: Bureau of Labor Statistics.

See [www.franklintempletondatasources.com](http://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.**



**Manager's Discussion**

Despite a challenging start, the Fund's primary asset classes delivered positive results over the period under review. In the first four months, high-yield corporate bonds and utility stocks experienced significant declines as concerns about global growth, simmering trade tensions and slumping commodity prices overwhelmed financial markets and led to selloffs in most sectors. The Fed's move away from accommodative monetary policies during this time also created uncertainty over future interest rate hikes, further hurting investor sentiment as disappointing progress in U.S.-China trade talks muddied the market outlook. By December, concerns about a U.S. government shutdown and growing disarray surrounding Britain's plans to exit the European Union reinforced a risk-averse mood.

**Portfolio Composition**

2/28/19

|   | <b>% of Total<br/>Investments*</b> |
|---|------------------------------------|
| Corporate Bonds                           | 67.1%                              |
| Utilities Common Stocks                   | 29.1%                              |
| Natural Resources Common Stocks           | 1.0%                               |
| Materials Common Stocks                   | 0.9%                               |
| Transportation Common Stocks              | 0.1%                               |
| Escrows and Litigation Trusts**           | 0.0%                               |
| Short-Term Investments & Other Net Assets | 1.8%                               |

\*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%.

Corporate bonds and utilities recovered in the first two months of 2019 due to a reversal of a number of trends. More dovish comments from the Fed, progress in U.S.-China trade talks and higher oil prices combined to provide what we considered a much more favorable backdrop for our investment strategy as we approached period-end.

**High-Yield Corporate Bonds**

The Credit Suisse High Yield Index posted a +1.66% total return for the six-month period under review. After losing ground in the last four months of 2018, gains in early 2019 lifted the overall return back into positive territory. Spreads over treasuries widened during the period, advancing from 374 basis points (bps) to 433 bps at period-end. It is worth noting that high-yield spreads narrowed during the first two months of 2019, after reaching 575 bps at December-end.

In terms of quality, lower-rated bonds underperformed early in the period as CCC rated credits were disproportionately

**Top 10 Holdings\***

Based on Total Investments\*\*

2/28/19 vs. 8/31/18

| <b>Issuer</b>                    | <b>2/28/19</b> |
|----------------------------------|----------------|
| NextEra Energy Inc.              | 2.1%           |
| Sempra Energy                    | 2.0%           |
| American Electric Power Co. Inc. | 2.0%           |
| Dominion Energy Inc.             | 1.8%           |
| CMS Energy Corp.                 | 1.8%           |
| Evergy Inc.                      | 1.7%           |
| Pinnacle West Capital Corp.      | 1.6%           |
| Duke Energy Corp.                | 1.5%           |
| Exelon Corp.                     | 1.4%           |
| DTE Energy Co.                   | 1.4%           |

| <b>Issuer</b>                    | <b>8/31/18</b> |
|----------------------------------|----------------|
| NextEra Energy Inc.              | 2.3%           |
| Evergy Inc.                      | 2.3%           |
| Sempra Energy                    | 2.3%           |
| American Electric Power Co. Inc. | 2.1%           |
| CMS Energy Corp.                 | 2.0%           |
| Dominion Energy Inc.             | 1.9%           |
| Duke Energy Corp.                | 1.5%           |
| Pinnacle West Capital Corp.      | 1.4%           |
| Exelon Corp.                     | 1.4%           |
| Alliant Energy Corp.             | 1.4%           |

\*Excludes short-term investments.

\*\*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.

impacted by market volatility. Although these lower-rated credits outperformed their BB and B rated counterparts later in the period, they still underperformed for the six-month period overall as BB rated bonds led performance. From a sector standpoint, issuers in the supermarket, electric and utility industries contributed to relative performance, and the pharmaceuticals and health care industries also outperformed the index. Meanwhile, energy-related industries generally underperformed, primarily due to declining oil prices through the end of 2018.

We maintain a positive outlook on high-yield market fundamentals, but remain committed to our credit selection discipline. Despite a few notable exceptions in recent months, high-yield default rates remain low and we believe valuations are still attractive, albeit less so than at the beginning of 2019. A more dovish stance from the Fed and expectations for fewer rate increases in 2019 continue to support a favorable backdrop for the asset class. However, while the U.S. economy generally



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remains strong, we continue to believe that we are in the later stages of the economic cycle, and we remain wary of an array of political risks that could exert their influence on the market at any time.

**Utility Stocks**

Utility stocks, as measured by the S&P Utilities Index, posted a +8.54% total return for the six-month period, compared to the -3.04% total return of the S&P 500 Index over the same time. In late 2018, utilities began to outperform the S&P 500 due to disappointing global economic indicators, which led to Fed comments that indicated less urgency on the number and pace of future federal funds rate increases. Utilities stocks historically are correlated to the direction of interest rates, and the recent decline in long-term treasury rates has been good for the sector compared to other economically sensitive S&P sectors. We believe utilities will continue their correlation to fixed income markets.

We believe the fundamental strength of the utilities sector remains high, as risks of regulatory interference for most companies remain low. The California wildfires of the past two years, and subsequent policy debate in that state around the compensation of losses, remains a significant exception to the otherwise stable regulatory environment. In response, we have reduced our holdings in California in favor of other states during the past six months.

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

Sincerely,

Glenn I. Voyles, CFA

Portfolio Manager

*The foregoing information reflects our analysis, opinions and portfolio holdings as of February 28, 2019, 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.*



## Performance Summary as of February 28, 2019

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 2/28/19<sup>1</sup>

|         | Cumulative Total Return <sup>2</sup> |                                       | Average Annual Total Return <sup>2</sup> |                                       |
|---------|--------------------------------------|---------------------------------------|--|---------------------------------------|
|         | Based on<br>NAV <sup>3</sup>         | Based on<br>market price <sup>4</sup> | Based on<br>NAV <sup>3</sup>             | Based on<br>market price <sup>4</sup> |
| 6-Month | +4.50%                               | +5.79%                                | +4.50%                                   | +5.79%                                |
| 1-Year  | +9.25%                               | +8.03%                                | +9.25%                                   | +8.03%                                |
| 5-Year  | +31.69%                              | +32.30%                               | +5.66%                                   | +5.76%                                |
| 10-Year | +240.43%                             | +248.39%                              | +13.03%                                  | +13.29%                               |

*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                              | 2/28/19 | 8/31/18 | Change  |
|---|---------|---------|---------|
| Net Asset Value (NAV)                   | \$8.15  | \$7.99  | +\$0.16 |
| Market Price (NYSE)                     | \$6.96  | \$6.77  | +\$0.19 |
| <b>Distributions</b> (9/1/18 - 2/28/19) |         |         |         |

## 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 10/31/19. 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.

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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.



**Financial Highlights**

|   | <b>Six Months Ended</b>                      |                    |                              |             |                    |                    |
|---|--|--------------------|------------------------------|-------------|--------------------|--------------------|
|   | <b>February 28,<br/>2019<br/>(unaudited)</b> | <b>2018</b>        | <b>Year Ended August 31,</b> |             |                    | <b>2014</b>        |
|   |  |                    | <b>2017</b>                  | <b>2016</b> | <b>2015</b>        |                    |
| <b>Per share operating performance</b><br>(for a share outstanding throughout the period) |  |                    |                              |             |                    |                    |
| Net asset value, beginning of period  | \$ 7.99                                      | \$ 8.24            | \$ 7.67                      | \$ 7.11     | \$ 8.34            | \$ 7.61            |
| Income from investment operations:  |  |                    |                              |             |                    |                    |
| Net investment income <sup>a</sup>  | 0.19   | 0.39               | 0.38                         | 0.39        | 0.45               | 0.47               |
| Net realized and unrealized gains (losses)  | 0.16   | (0.26)             | 0.57                         | 0.64        | (1.21)             | 0.73               |
| Total from investment operations  | 0.35   | 0.13               | 0.95                         | 1.03        | (0.76)             | 1.20               |
| Less distributions from net investment income   | (0.19)                                       | (0.38)             | (0.38)                       | (0.47)      | (0.47)             | (0.47)             |
| Net asset value, end of period  | \$ 8.15                                      | \$ 7.99            | \$ 8.24                      | \$ 7.67     | \$ 7.11            | \$ 8.34            |
| Market value, end of period <sup>b</sup>  | \$ 6.96                                      | \$ 6.77            | \$ 7.24                      | \$ 6.84     | \$ 6.10            | \$ 7.39            |
| Total return (based on market value per share) <sup>c</sup>                               | 5.79%  | (1.18)%            | 11.81%                       | 20.76%      | (11.57)%           | 16.71%             |
| <b>Ratios to average net assets<sup>d</sup></b>   |  |                    |                              |             |                    |                    |
| Expenses before waiver and payments by affiliates   | 2.47%  | 1.98%              | 2.00%                        | 2.13%       | 1.97%              | 1.97%              |
|   | 2.46%  | 1.98% <sup>f</sup> | 1.99%                        | 2.12%       | 1.97% <sup>f</sup> | 1.97% <sup>f</sup> |

|  |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|
| Expenses net of waiver and payments by affiliates <sup>e</sup> |       |       |       |       |       |       |
| Net investment income  | 4.88% | 4.91% | 4.81% | 5.48% | 5.63% | 5.76% |

**Supplemental data**

|   |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Net assets, end of period (000 s)                                     | \$204,785 | \$200,796 | \$206,965 | \$192,682 | \$178,747 | \$209,674 |
| Portfolio turnover rate   | 7.83%     | 22.96%    | 23.25%    | 21.13%    | 20.30%    | 18.25%    |
| Total debt outstanding at end of period (000 s)                       | \$65,000  | \$65,000  | \$60,000  | \$60,000  | \$60,000  | \$60,000  |
| Asset coverage per \$1,000 of debt                                    | \$4,151   | \$4,089   | \$4,449   | \$4,211   | \$3,979   | \$4,495   |
| Average amount of senior rate fixed Notes per share during the period | \$2.59    | \$2.39    | \$2.39    | \$2.39    | \$2.39    | \$2.39    |

<sup>a</sup>Based on average daily shares outstanding.

<sup>b</sup>Based on the last sale on the New York Stock Exchange.

<sup>c</sup>Total return is not annualized for periods less than one year.

<sup>d</sup>Ratios are annualized for periods less than one year.

<sup>e</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>f</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

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The accompanying notes are an integral part of these financial statements. | Semiannual Report

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## Statement of Investments, February 28, 2019 (unaudited)

|  | Country       | Shares/<br>Warrants | Value      |
|--|---------------|---------------------|------------|
| <b>Common Stocks and Other Equity Interests 41.0%</b>      |               |                     |            |
| <b>Energy 1.3%</b>   |               |                     |            |
| <sup>a</sup> Birch Permian Holdings Inc                    | United States | 66,542              | \$ 765,233 |
| <sup>a</sup> Chaparral Energy Inc., A                      | United States | 5,868               | 31,687     |
| <sup>a,b</sup> Chaparral Energy Inc., A, 144A              | United States | 214                 | 1,156      |
| Enbridge Inc.  | Canada        | 39,360              | 1,455,926  |
| <sup>a</sup> Goodrich Petroleum Corp.                      | United States | 19,379              | 251,346    |
| <sup>a</sup> Halcon Resources Corp.                        | United States | 52,355              | 78,533     |
| <sup>a</sup> Halcon Resources Corp., wts., 9/09/20         | United States | 4,668               | 93         |
| <sup>a</sup> Midstates Petroleum Co. Inc.                  | United States | 238                 | 2,056      |
| <sup>a,c</sup> Midstates Petroleum Co. Inc., wts., 4/21/20 | United States | 2,311               |            |