FRANKLIN LTD DURATION INCOME TRUST
Form N-2/A
August 23, 2018

As filed with the Securities and Exchange Commission on August 23, 2018

Securities Act File No. 333-225639

Investment Company Act File No. 811-21357

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

Registration Statement Under the Securities Act of 1933

Pre-Effective Amendment No. 1

Post-Effective Amendment No.

and/or

Registration Statement Under the Investment Company Act of 1940

Amendment No. 8

Franklin Limited Duration Income Trust

(Exact Name of Registrant as Specified In Charter)

c/o Franklin Advisers, Inc.

One Franklin Parkway, San Mateo, CA 94403-1906

(Address of Principal Executive Offices)

Registrant’s Telephone Number, including Area Code: **(650) 312-2000**

Craig S. Tyle, One Franklin Parkway

San Mateo, CA 94403-1906

(Name and Address of Agent For Service)

Copies of information to:

Rose F. DiMartino, Esq.

Willkie Farr & Gallagher LLP

787 Seventh Avenue

New York, New York 10019

Approximate Date of Proposed Public Offering: From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box)

when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Shares, no par value per share Rights to Purchase Common Shares(3)			$200,000,000	$24,900
Total			$200,000,000	$24,900(4)

(1) There is being registered hereunder an indeterminate principal amount of Common Shares as may be sold, from time to time, including rights to purchase Common Shares.
(2) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
(3) No separate consideration will be received by the Registrant. Any shares issued pursuant to an offering of rights to purchase Common Shares, including any shares issued pursuant to an over-subscription privilege or a secondary over-subscription privilege, will be shares registered under this Registration Statement.
(4) $24,900 registration fee was previously paid on June 14, 2018.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this Prospectus is not complete and may be changed. Franklin Limited Duration Income Trust may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 23, 2018

PRELIMINARY BASE PROSPECTUS

$200,000,000

FRANKLIN LIMITED DURATION INCOME TRUST

Common Shares

Rights to Purchase Common Shares

The Franklin Limited Duration Income Trust, a Delaware statutory trust ("Fund," "we," "us" or "our"), is a diversified, closed-end management investment company. The Fund seeks to provide high current income, with a secondary objective of capital appreciation to the extent possible and consistent with the Fund's primary objective.

We may offer, from time to time, in one or more offerings, our common shares, no par value ("Common Shares"), or subscription rights to purchase our Common Shares. Common Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each, a "Prospectus Supplement"). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Shares.

Our Common Shares may be offered directly to one or more purchasers, including existing shareholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any offering of rights will set forth the number of Common Shares issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our Common Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Shares.

Our Common Shares are listed on the NYSE American under the symbol "FTF". The last reported sale price of our Common Shares, as reported by the NYSE American on [ ], 2018 was $[ ] per Common Share. The net asset value of our Common Shares at the close of business on [ ], 2018 was $[ ] per Common Share. Rights issued by the Fund may also be listed on a securities exchange.

An investment in the Common Shares involves certain risks and special considerations. For a discussion of these and other risks, see "Risks and Special Considerations."

Shares of closed-end investment companies frequently trade at a discount to their net asset value. The Fund's Common Shares have traded at a discount to net asset value, including during recent periods. If the Fund's Common Shares trade at a discount to its net asset value, the risk of loss may increase for purchasers in a public offering. See "Risks and Special Considerations—Net Asset Value Discount Risk."

Neither the Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

This Prospectus, together with any Prospectus Supplement, sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus and applicable Prospectus Supplement, which contain important information, before deciding whether to invest in the Common Shares. You should retain the Prospectus and Prospectus Supplement for future reference. A Statement of Additional Information ("SAI"), dated [ ], 2018, containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. The table of contents for the SAI is on page 2 of the Prospectus. You may call (800) DIAL BEN/342-5236, visit the Fund's website at www.franklintempleton.com or forward a written request to Franklin Templeton Investor Services, LLC, P.O. Box 997151, Sacramento, CA 95899-9983 to obtain, free of charge, copies of the SAI and the Fund's annual and semi-annual reports to shareholders, as well as to obtain other information about the Fund and to make shareholder inquiries.

The Fund's SAI, as well as the annual and semi-annual reports to shareholders, are also available on the Fund's website at www.franklintempleton.com. The SEC maintains a website at www.sec.gov that contains the SAI, material incorporated by reference into the Fund's registration statement and other information about the Fund.

Our Common Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Prospectus dated [ ], 2018

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You should rely only on the information contained in, or incorporated by reference into, this Prospectus and any related Prospectus Supplement in making your investment decisions. The Fund has not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not making an offer to sell the Common Shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus and any Prospectus Supplement is accurate only as of the dates on their covers. The Fund's business, financial condition and prospects may have changed since the date of its description in this Prospectus or the date of its description in any Prospectus Supplement.

PROSPECTUS SUMMARY

The following information is only a summary. You should consider the more detailed information contained in the Prospectus and in any related Prospectus Supplement and in the SAI before purchasing Common Shares, especially the information under "Risks and Special Considerations" on page 43 of the Prospectus.

The Fund	The Fund is a diversified, closed-end management investment company organized under the laws of the State of Delaware. See "The Fund." The Fund's Common Shares are listed for trading on the NYSE American under the symbol "FTF". As of September 1, 2018, the net assets of the Fund were $[ ], the total assets of the Fund were $[ ] and the Fund had outstanding [22,604,126] Common Shares. The last reported sale price of the Fund's Common Shares, as reported by the NYSE American on [Ÿ], 2018 was $[Ÿ] per Common Share. The net asset value of the Fund's Common Shares at the close of business on [Ÿ], 2018 was $[Ÿ] per Common Share. See "Description of Shares." Rights issued by the Fund may also be listed on a securities exchange.
The Offering	We may offer, from time to time, in one or more offerings, up to $200,000,000 of our Common Shares on terms to be determined at the time of the offering. We may also offer subscription rights to purchase our Common Shares. The Common Shares may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Shares. Our Common Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The offering price per Common Share will not be less than the net asset value per Common Share at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See "Rights Offerings." The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Common Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. See "Plan of Distribution." The Prospectus Supplement relating to any offering of rights will set

forth the number of Common Shares issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our Common Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Shares.

Use of Proceeds

We intend to use the net proceeds from the offering primarily to invest in accordance with our investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months from the conclusion of the offering; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. See "Use of Proceeds."

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Investment Objectives

The Fund seeks to provide high current income, with a secondary objective of capital appreciation to the extent possible and consistent with the Fund's primary objective.

Investment Policies

Under normal market conditions, the Fund will seek to achieve its investment objectives by investing in debt securities and other income-producing instruments, allocated primarily among three distinct investment categories: (1) mortgage-backed securities and other asset-backed securities; (2) bank loans made to corporate and other business entities; and (3) below "investment grade" debt securities and other income-producing instruments. There is no limitation on the percentage of the Fund's assets that may be allocated to each of these investment categories; provided that, under normal market conditions, the Fund will invest at least 20% of its total assets in each category. Under normal market conditions, the Fund may invest up to 25% of its total assets in loans originated through on-line marketplace lending platforms (a "Platform") that provide a marketplace for lending through the purchase of loans (either individually or in aggregations) ("Marketplace Loans") and other types of marketplace lending instruments. Under normal circumstances, the Fund's allocation to the investment category of mortgage-backed and other asset-backed securities will be primarily composed of investments in mortgage-backed securities. See "Investment Objectives and Strategies."

Limited Duration

Under normal market conditions, the Investment Manager (as defined below) expects the Fund to maintain an estimated average portfolio duration of between two and five years (including the effect of anticipated leverage). This duration policy may only be changed following provision of 60 days' prior notice to holders of Common Shares ("Common Shareholders"). In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

Sector Allocation Strategy

The Fund uses an active sector allocation strategy to try to achieve its goals of income and capital appreciation. This means the Fund allocates its assets among securities in various market sectors based on the Investment Manager's assessment of changing economic, global market, industry, and issuer conditions. Consequently, the Fund, from time to time, may have significant positions in particular sectors. There can be no assurance that the Investment Manager's assessments will be correct. See "Investment Objectives and Strategies—Portfolio Management Strategies."

Credit Quality

Under normal market conditions, the Fund will invest at least 20% of its assets in debt securities or other instruments rated below investment grade, sometimes called "junk bonds." The Fund may also invest in investment grade debt securities. Investment grade debt securities are rated in one of the top four ratings categories by a nationally-recognized statistical rating organization (a "Rating Agency") such as S&P, Moody's or Fitch. A debt security rated below the top four ratings categories by each Rating Agency rating the security will be considered below investment grade. The Fund may also buy unrated debt securities or other income-producing instruments.

The Investment Manager monitors the credit quality and price of the Fund's holdings, as well as other investments that are available to the Fund.

The Fund may invest in securities or other instruments whose issuers are in default or bankruptcy. Under normal conditions, the Fund will not invest more than 5% of its total assets in debt securities or other obligations whose issuers are in default at the time of purchase.

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Independent Credit Analysis

The Investment Manager will rely heavily on its own analysis of the credit quality and risks associated with individual debt obligations considered for the Fund, rather than relying exclusively on rating agencies, third-party research or the credit ratings assigned by a Platform with regard to Marketplace Loans. The Investment Manager will use this information in an attempt to minimize credit risk and identify borrowers, issuers, industries or sectors that are undervalued or that offer attractive yields relative to the Investment Manager's assessment of their credit characteristics. The Fund's success in achieving its investment objectives may depend more heavily on the Investment Manager's credit analysis than if the Fund invested solely in higher-quality and rated securities.

Diversification

Subject to the availability of suitable investment opportunities, the Investment Manager will seek to diversify the Fund's investments broadly in an attempt to minimize the portfolio's sensitivity to credit and other risks associated with a particular issuer, industry or sector, or to the impact of a single economic, political or regulatory event.

Portfolio Contents

The Fund's portfolio may include bonds, debentures, notes and other similar types of debt instruments, such as asset-backed securities, as well as bank loans and loan participations, commercial and agency-issued mortgage securities, payment-in-kind securities, zero-coupon securities, bank certificates of deposit, fixed time deposits and bankers' acceptances, structured notes and other hybrid instruments, preferred shares, municipal or U.S. government securities, debt securities issued by foreign corporations or supra-national government agencies, mortgage-backed securities issued on a public or private basis, other types of asset-backed securities, and Marketplace Loans and other types of marketplace lending instruments including any of the following: (i) direct investments in Marketplace Loans to consumers, small- and mid-sized companies ("SMEs") and other borrowers; (ii) investments in notes or other pass-through obligations issued by a Platform representing the right to receive the principal and interest payments on a Marketplace Loan ("Pass-Through Notes"); (iii) investments in asset-backed securities representing ownership in a pool of Marketplace Loans; and (iv) investments in public or private investment funds that purchase Marketplace Loans (the foregoing listed investments are collectively referred to herein as "Marketplace Lending Instruments"). The rate of interest on an income-producing security may be fixed, floating or variable. The Fund may use swaps and other derivative instruments. The Fund will not invest in inverse floating rate instruments or interest-only or principal-only mortgage securities.

The Fund may hold equity securities; however, under ordinary circumstances, such investments will be limited to convertible securities, dividend-paying common or preferred stocks, or equity securities acquired in connection with a restructuring, bankruptcy, default, or the exercise of a conversion or purchase right.

Since the Fund is diversified, with respect to 75% of its investment portfolio, the Fund generally may not hold more than 5% of its assets in the securities of a single issuer or hold more than 10% of the outstanding voting securities of an issuer. The Fund generally will not invest more than 25% of its total assets in securities of issuers in any one industry. See "How the Fund Manages Risk—Investment Limitations."

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Investment Restrictions

The Fund has certain investment restrictions that may not be changed without approval by a majority of the Fund's outstanding voting securities. These restrictions concern issuance of senior securities, borrowing, lending and other matters. See "Investment Restrictions and Additional Investment Information" in the SAI.

Risks

The value of the Fund's assets, as well as the market price of its shares, will fluctuate. You can lose money on your investment. Investing in the Fund involves other risks, including the risks set out below. See "Risks and Special Considerations" for more information on these and other risks).

General. The Fund is a diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. An investment in the Fund's Common Shares may be speculative and involves a high degree of risk. The Fund should not be considered a complete investment program. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.

Investment and Market Risk. An investment in the Fund's Common Shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which the Fund invests will affect the value of the Common Shares. Your Common Shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Net Asset Value Discount Risk. As with any stock, the price of the Common Shares will fluctuate with market conditions and other factors. If Common Shares are sold, the price received may be more or less than the original investment. The Common Shares may trade at a price that is less than the offering price or at a discount from their net asset value. This risk may be greater for investors who sell their shares relatively shortly after completion of the offering. The Common Shares are designed for long-term investors.

Credit Risk. An issuer of a debt security, or the borrower of a Marketplace Loan, may be unable to make interest payments and repay principal. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value and, thus, impact Fund performance. See "Risks and Special Considerations**—**Credit Risk."

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Mortgage-Related Risk. Rising interest rates tend to extend the duration of mortgage-related securities, which in turn could lengthen the average duration of the Fund's portfolio, making the portfolio more sensitive to changes in interest rates, and may reduce the market value of the portfolio's mortgage-related securities. This possibility is often referred to as extension risk. In addition, mortgage-related securities are subject to prepayment risk – the risk that borrowers may pay off their mortgages sooner than expected, particularly when interest rates decline. See "Risks and Special Considerations**—**Mortgage-Related Risk."

Loan Risk. Bank loans, loan participations and assignments involve credit risk, interest rate risk, liquidity risk, and the risks of being a lender, as well as other risks. If the Fund purchases a loan, it may be able to enforce its rights only through the lender, and may assume the credit risk of both the lender and the borrower.

Corporate loans in which the Fund may invest may be unrated and generally will not be registered with the SEC or listed on a securities exchange. Because the amount of public information available with respect to corporate loans generally is less extensive than that available for more widely rated, registered and exchange-listed securities, corporate loans can be more difficult to value. See "Risks and Special Considerations—Loan Risk."

Bank loans and certain corporate loans may not be considered "securities," and investors, such as the Fund, therefore may not be entitled to rely on the antifraud protections of the federal securities laws and may have limited legal remedies.

Marketplace Loan Risk. Marketplace Loans are subject to the normal risks associated with debt investments including but not limited to, interest rate, credit, liquidity, high yield debt, market and income risks. Marketplace Loans are generally not rated by rating agencies and constitute a highly risky and speculative investment, similar to an investment in below "investment grade" securities (commonly known as junk bonds). There can be no assurance that payments due on underlying Marketplace Loans will be made. A substantial portion of the Marketplace Loans in which the Fund may invest will not be secured by any collateral, will not be guaranteed or insured by a third party and will not be backed by any governmental authority. Accordingly, the Platforms and any third-party collection agencies will be limited in their ability to collect on defaulted Marketplace Loans.

Additionally, certain Marketplace Loans in which the Fund may invest may represent obligations of consumers who would not otherwise qualify for, or would have difficulty qualifying for, credit from traditional sources of lending, or SMEs that are unable to effectively access public equity or debt markets. As a result of the credit profile of the borrowers and the interest rates on Marketplace Loans, the delinquency and default experience on the Marketplace Loans may be significantly higher than those experienced by financial products arising from traditional sources of lending. See "Risks and Special Considerations – Marketplace Loan Risk."

High Yield Risk. The Fund may invest in debt securities, Marketplace Loans, and other income-producing instruments that are rated below investment grade or unrated. These securities and instruments generally have more credit risk than higher-rated securities. The issuers of such securities or instruments typically do not have the track record needed to receive an investment grade rating, have borrowed to finance acquisitions or to expand their operations, are seeking to refinance their debt at lower rates, or have been downgraded due to financial difficulties. Due to the risks involved in investing in high yield debt securities and other income-producing instruments, an investment in the Fund should be considered speculative.

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Companies issuing high yield, fixed-income securities are not as strong financially as those issuing securities with higher credit ratings. These companies are more likely to encounter financial difficulties and are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments. The high yield market has experienced a large number of defaults in recent years. If a company defaults because it stops making interest and/or principal payments, payments on the securities may never resume because such securities are generally unsecured and are often subordinated to other creditors of the issuer. These securities may be worthless and the Fund could lose its entire investment.

High yield securities generally are less liquid than higher-quality securities. Many of these securities do not trade frequently, and when they do their prices may be significantly higher or lower than expected. See "Risks and Special Considerations—High Yield Risk."
Interest Rate Risk. Changes in interest rates may present risks to the Fund. When interest rates rise, debt security prices generally fall. The opposite is also true: debt security prices generally rise when interest rates fall. Because market interest rates are currently near their lowest levels in many years, there is a great risk that the Fund's investments will decline in value.

The prices of fixed-rate securities with longer durations tend to be more sensitive to changes in interest rates than securities with shorter durations, usually making them more volatile. Because the Fund will normally have an estimated average portfolio duration of between two and five years (including the effects of anticipated leverage), the Common Shares' net asset value and market price will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities and less than if the Fund invested mainly in longer-term debt securities.

The cost of leverage employed by the Fund is based on certain interest rates. If the cost of leverage exceeds the rate of return on the debt obligations and other investments held by the Fund that were acquired during periods of generally lower interest rates, the returns to Common Shareholders may be reduced. The Fund's use of leverage, as described in the Prospectus, will tend to increase Common Share interest rate risk.

The Fund may employ certain strategies for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk, although there is no assurance that it will do so or that such strategies will be successful. See "Risks and Special Considerations—Interest Rate Risk."

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Inflation Risk. Inflation risk is the risk that the value of assets or income from the Fund's investments will be worth less in the future as inflation decreases the value of money.

Leverage Risk. The Fund's use of leverage creates the opportunity for increased Common Share net income, but also creates special risks for Common Shareholders. The Fund currently uses leverage through the borrowing of funds under a committed financing arrangement and the purchase of mortgage dollar rolls. The Fund may use other forms of leverage, including through the issuance of senior securities such as preferred shares. The Fund may also use leverage through the lending of portfolio securities, and the use of swaps, other derivatives, reverse repurchase agreements, and when-issued, delayed delivery or forward commitment transactions. To mitigate leverage risk from such transactions, the Fund may segregate liquid assets against or otherwise cover its future obligations under such transactions.

So long as the Fund's securities portfolio provides a higher rate of return (net of Fund expenses) than the cost of its leverage (e.g., the interest rate on any borrowings), the leverage will allow Common

Shareholders to receive a higher current rate of return than if the Fund were not leveraged. If, however, interest rates rise, which may be likely because interest rates are currently near their lowest levels in many years, the Fund's cost of leverage could exceed the rate of return on the debt obligations and other investments held by the Fund that were acquired during periods of generally lower interest rates, reducing return to Common Shareholders. If the Fund leverages with preferred shares that pay cumulative dividends, the Fund's leverage risk may be increased.

The Fund's use of leverage may, during periods of rising interest rates, adversely affect the Fund's income, distributions and total returns to Common Shareholders. Leverage creates two major types of risks for Common Shareholders:

- the likelihood of greater volatility of net asset value and market price of Common Shares, because changes in the value of the Fund's portfolio of income-producing securities (including securities bought with the proceeds of leverage) are borne entirely by the Common Shareholders; and

- the possibility either that Common Share income will fall if the Fund's cost of leverage rises, or that Common Share income will fluctuate because the cost of leverage varies. Because the fees received by the Investment Manager are based on the Managed Assets (as defined below) of the Fund (including the aggregate liquidation preference of any preferred shares or the outstanding amount of any borrowing or short-term debt securities), the Investment Manager has a financial incentive for the Fund to use leverage, which may create a conflict of interest between the Investment Manager and the Common Shareholders.

By using leverage, the Fund will seek to obtain a higher return for holders of Common Shares than if the Fund did not use leverage. Leveraging is a speculative technique and there are special risks involved. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. The Fund's use of leverage strategies could result in larger losses than if the strategies were not used.

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Portfolio Security Issuer Risk. The value of the Fund's investments may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and performance and factors affecting the issuer's industry

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Investment Manager will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that they will produce the desired results.

Foreign (Non-U.S.) Investment Risk. Investing in foreign securities, including securities of foreign governments, typically involves more risks than investing in U.S. securities. These risks can increase the potential for losses in the Fund and may include, among others, currency risks, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. See "Risks and Special Considerations—Foreign (Non-U.S.) Investment Risk." Investing in securities of issuers based in developing or emerging markets entails all of the risks of investing in securities of foreign issuers to a heightened degree as well as other risks. See "Risks and Special Considerations—Foreign (Non-U.S.) Investment Risk—Developing Countries and Emerging Markets."

Debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities, is subject to several risks, such as the fact that there are generally no bankruptcy proceedings similar to those in the United States by which defaulted sovereign debt may be collected. Other risks include: potential limits on the flow of capital; political and economic risk; the extent and quality of financial regulations; tax risk; and the potential expropriation or nationalization of foreign issuers. See "Risks and Special Considerations— Foreign (Non-U.S.) Investment Risk—Sovereign Issuers."

Derivatives Risk. The performance of derivatives depends largely on the performance of an underlying asset, interest rate or index, and such instruments often have risks similar to their underlying asset. Derivatives (such as futures contracts and options thereon, options, swaps and short sales) are also subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leverage risk, volatility risk and management risk. They also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation, and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. With over-the-counter derivatives, there is a risk that the other party to the transaction will fail to perform (known as counterparty risk). There can be no assurance that the Fund will engage in suitable derivative transactions to reduce exposure to other risks when that would be beneficial. See “Risks and Special Considerations—Derivatives Risk.”

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Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to any derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract. See “Risks and Special Considerations—Counterparty Risk.”

Volatility Risk. The market values for some or all of the Fund’s holdings may be volatile. The Fund’s investment grade or long-term debt securities, will generally be more sensitive to changing interest rates and less sensitive to changes in the economic environment. The Fund’s investments may also be subject to liquidity constraints and as a result, higher price volatility. The Fund’s use of leverage may increase the volatility of the Fund’s investment portfolio. See “Risks and Special Considerations—Volatility Risk.”

Reinvestment Risk. The Fund may distribute or reinvest the proceeds from matured, traded or called debt obligations. If the Fund reinvests such proceeds at lower interest rates, the market price or the overall return of the Common Shares may decline. See “Risks and Special Considerations—Reinvestment Risk.”

Call Risk. A debt security may be prepaid (called) before maturity. An issuer is more likely to call its securities when interest rates are falling, because the issuer can issue new securities with lower interest payments. If a debt security is called, the Fund may have to replace it with a lower-yielding security. At any time, the Fund may have a large amount of its assets invested in securities subject to call risk. A call of some or all of these securities may lower the Fund’s income and yield and its distributions to shareholders. See “Risks and Special Considerations—Call Risk.”

Liquidity Risk. The Fund may invest up to 25% of its total assets in securities which are illiquid at the time of investment (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose of illiquid securities when that would be beneficial at a favorable time or price. The Fund's investments in Marketplace Loans will be limited by the Fund's 25% limit on illiquid investments to the extent such Marketplace Loans are determined to be illiquid. See "Risks and Special Considerations—Liquidity Risk."

Income Risk. Because the Fund can distribute only what it earns, the Fund's distributions to shareholders may decline. See "Risks and Special Considerations—Income Risk" and "—Marketplace Loan Risk."

Zero-Coupon Securities Risk. Zero-coupon securities are especially sensitive to changes in interest rates, and their prices generally are more volatile than debt securities that pay interest periodically. Lower quality zero-coupon bonds are generally subject to the same risks as high yield debt securities. The Fund typically will not receive any interest payments on these securities until maturity. If the issuer defaults, the Fund may lose its entire investment, which will affect the Fund's share price. See "Risks and Special Considerations—Zero-Coupon Securities Risk."

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Smaller Company Risk. Although the Fund does not presently intend to invest a significant portion of its assets in smaller companies, the Fund may invest some of its assets in such companies. These companies may be subject to greater levels of credit, market and issuer risk than companies with larger market capitalizations. Also, securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. See "Risks and Special Considerations—Smaller Company Risk."

Real Estate Risk. Since the Fund may invest in real estate investment trusts and mortgage securities secured by real estate, the Fund may be subject to risks similar to those associated with the direct ownership of real estate. These risks include declines in the value of real estate, general and local economic risk, management risk, interest rate risk, possible lack of availability of mortgage funds, overbuilding, extended vacancies of properties, increased competition, increases in property taxes and operating expenses, changes in zoning laws, environmental risk, casualty or condemnation losses, and rent controls. See "Risks and Special Considerations—Real Estate Risk."

Market Disruption and Geopolitical Risk. The occurrence of events similar to those in recent years, such as the aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Libya, Syria and other countries in the Middle East and North Africa, terrorist attacks in the U.S., Europe and elsewhere around the world, social and political discord and uncertainty, debt crises (such as the recent Greek crisis), sovereign debt downgrades, or the exit or potential exit of one or more countries from the EMU or the European Union (such as the United Kingdom), among others, may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide. Any such event(s) could have a significant adverse impact on the value and risk profile of the Fund's portfolio. The Fund does not know how long the securities markets may be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. There can be no assurance that similar events and other market disruptions will not have other material and adverse implications. See "Risks and Special Considerations—Market Disruption and Geopolitical Risk."

Fraud Risk. The Fund is subject to the risk of fraudulent activity associated with the various parties involved in marketplace lending, including the Platforms, banks, borrowers and third parties handling borrower and investor information. For example, a borrower may have supplied false or inaccurate information. A Platform's resources, technologies and fraud prevention tools may be insufficient to accurately detect and prevent fraud.

Platform Risk. To the extent that the Fund invests in Marketplace Loans, it will be dependent on the continued success of the Platforms that originate such loans. The Fund materially depends on such Platforms for loan data and the origination, sourcing and servicing of Marketplace Loans and on the Platform's ability to collect, verify and provide information to the Fund about each Marketplace Loan and borrower.

Regulatory and Judicial Risks. The Platforms through which Marketplace Loans are originated are subject to various statutes, rules and regulations issued by federal, state and local government authorities. Federal and state consumer protection laws in particular impose requirements and place restrictions on creditors and service providers in connection with extensions of credit and collections on personal loans and protection of sensitive customer data obtained in the origination and servicing thereof. Platforms are also subject to laws relating to electronic commerce and transfer of funds in conducting business electronically. A failure to comply with the applicable rules and regulations may, among other things, subject the Platform or its related entities to certain registration requirements with government authorities and the payment of any penalties and fines; result in the revocation of their licenses; cause the loan contracts originated by the Platform to be voided or otherwise impair the enforcement of such loans; and subject them to potential civil and criminal liability, class action lawsuits and/or administrative or regulatory enforcement actions.

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Marketplace Loans Pass-Through Notes Risk. As Pass-Through Notes generally are pass-through obligations of the operators of the Platforms, and are not direct obligations of the borrowers under the underlying Marketplace Loans originated by such Platforms, holders of certain Pass-Through Notes are exposed to the credit risk of the operator. An operator that becomes subject to bankruptcy proceedings may be unable to make full and timely payments on its Pass-Through Notes even if the borrowers of the underlying Marketplace Loans timely make all payments due from them. In addition, Pass-Through Notes are non-recourse obligations (except to the extent that the operator actually receives payments from the borrower on the loan). Accordingly, lenders assume all of the borrower credit risk on the loans they fund and are not entitled to recover any deficiency of principal or interest from the operator if the borrower defaults on its payments.

High Portfolio Turnover Risk: The Fund may engage in active trading and there may be a high portfolio turnover rate. Portfolio turnover refers to the frequency of portfolio transactions and the percentage of portfolio assets being bought and sold during the year, which may increase overall costs. A high portfolio turnover rate may result in correspondingly greater brokerage commission expenses and the distribution to shareholders of additional capital gains for tax purposes, some of which may be taxable at ordinary income rates. There is not necessarily a relationship between a high portfolio turnover rate and the Fund's performance.

Anti-Takeover Provisions. The Fund's Amended and Restated Agreement and Declaration of Trust, dated June 19, 2003, as amended (the "Declaration"), includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. Also, these provisions could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares. See "Anti-Takeover and Other Provisions in the Declaration of Trust."

Conflicts of Interest Risk. The Investment Manager's advisory fees are based on Managed Assets. Consequently, the Investment Manager will benefit from an increase in the Fund's Managed Assets resulting from an offering. In addition, a Director who is an "interested person" (as such term is defined under the Investment Company Act of 1940 ("1940 Act")) of the Fund or a portfolio manager of the Fund could benefit indirectly from an offering because of such affiliations.

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Distribution Rate. There can be no assurance that the Fund's Board of Trustees (the "Board" or the "Board of Trustees") will maintain the Fund's distribution rate at a particular level, or that the Board will continue a managed distribution policy. Additionally, distributions may include return of capital as well as net investment income and capital gains. A return of capital is a return to investors of a portion of their original investment in the Fund. In general terms, a return of capital would involve a situation in which a Fund distribution (or a portion thereof) represents a return of a portion of a shareholder's investment in the Fund, rather than making a distribution that is funded from the Fund's earned income or other profits. Although return of capital distributions may not be currently taxable, such distributions would decrease the basis of a shareholder's shares, and therefore, may increase a shareholder's tax liability for capital gains upon a sale of shares, even if sold at a loss to the shareholder's original investments. If the Fund's investments do not generate sufficient income, the Fund may be required to liquidate a portion of its portfolio to fund these distributions. See "Dividends and Distributions."

Share Repurchases. When the Fund repurchases its shares pursuant to the Fund's share repurchase program, the resulting decrease in shares outstanding may increase the Fund's expense ratio; any borrowing to finance repurchases would reduce net income; and any sales of portfolio securities to finance repurchases may not be at a preferred time from a portfolio management perspective and would increase portfolio turnover and related expenses.

Rights. There is a risk that performance of the Fund may result in the underlying Shares purchasable upon exercise of the rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of rights. Investors who receive rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of Common Shares issued may be reduced, and the Common Shares may trade at less favorable prices than larger offerings for similar securities.

Investment Manager

Franklin Advisers, Inc. (the "Investment Manager") serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees, the Investment Manager is responsible for managing the investment activities of the Fund for which it receives an annual fee, payable monthly, in an amount equal to 0.70% of the average daily value of the Fund's Managed Assets. "Managed Assets" means the total assets of the Fund (including any assets attributable to leverage) minus the sum of accrued liabilities (other than the aggregate liquidation preference of any outstanding preferred shares or the outstanding amount of any borrowing or short-term debt securities). The Investment Manager and its affiliates (collectively known as "Franklin Templeton Investments") provide investment management and advisory services to closed-end and open-end investment company clients, as well as private accounts. As of May 31, 2018, Franklin Templeton Investments had approximately $732 billion in assets under management for more than three million U.S. based mutual fund shareholder and other accounts.

Administrator

The administrator of the Fund is Franklin Templeton Services, LLC ("FT Services"), whose principal address is also One Franklin Parkway, San Mateo, CA 94403. Under an agreement with the Investment Manager, FT Services performs certain administrative services, such as portfolio recordkeeping, for the Fund. FT Services is an indirect wholly owned subsidiary of Franklin Resources, Inc. The administrative fee is paid by the Investment Manager based on the Fund's average daily net assets, and is not an additional expense of the Fund.

Portfolio Management Team

Roger A. Bayston, CFA, Christopher J. Molumphy, CFA, Glenn I. Voyles, CFA, Madeline Lam and Justin Ma, CFA, have responsibility for the day-to-day management of the Fund's portfolio. See "Management of the Fund—Portfolio Management Team."

Leverage

The Fund borrows funds pursuant to a committed financing arrangement with BNP Paribas Prime Brokerage International, Ltd., which provides the Fund with a six-month rolling margin loan credit facility. The Fund currently expects to use financial leverage on an ongoing basis for investment purposes, including through borrowing funds from financial institutions and/or the purchase of mortgage dollar rolls. As of September 1, 2018, the Fund had leverage from borrowing funds from financial institutions and the purchase of mortgage dollar rolls in the amount of [ ]% of the Fund's Managed Assets. The Fund may also use leverage through the issuance of senior securities such as preferred shares and may enter into transactions that may give rise to a form of leverage, including among others: the lending of portfolio securities, and the use of swap contracts, other derivative instruments, reverse repurchase agreements, and when-issued, delayed delivery or forward commitment transactions. To mitigate leverage risk from such transactions, the Fund may segregate liquid assets against or otherwise cover its future obligations under such transactions. The Fund's entry into leverage transactions will not exceed the limits in the 1940 Act.

Distributions

The Board of Trustees adopted a managed distribution plan (the "Plan") whereby the Fund began, in January 2017, making monthly distributions to common shareholders at an annual minimum fixed rate of 10% based on average monthly NAV of the Fund's Common Shares. The primary purpose of the Plan is to provide the Fund's Common Shareholders with a constant, but not guaranteed, fixed minimum rate of distribution each month. The Plan is intended to narrow the discount between the market price and the NAV of the Fund's common shares, but there is no assurance that the Plan will be successful in doing so.

Under the Plan, to the extent that sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital (*i.e.*, return to investors of a portion of their original investment in the Fund) in order to maintain its managed distribution level. The Board may amend the terms of the Plan or terminate the Plan at any time without prior notice to the Fund's shareholders. The amendment or termination of the Plan could have an adverse effect on the market price of the Fund's Common Shares. The Plan is subject to periodic review by the Board, including a yearly review of the annual minimum fixed rate to determine if an adjustment should be made.

The Fund calculates the average NAV from the previous month based on the number of business days in that month on which the NAV is calculated. The distribution is calculated as 10% of the previous month's average NAV, divided by 12. The payment date for the distribution will typically be during the middle of the next month.

Unless you elect to receive distributions in cash, all of your distributions under the Plan will be automatically reinvested in additional Common Shares under the Fund's Dividend Reinvestment Plan. See "Dividends and Distributions" and "Dividend Reinvestment Plan."

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Dividend Reinvestment Plan

Under the Fund's Dividend Reinvestment Plan, all Common Shareholders whose shares are registered in their own names will have all dividends, including any capital gain distributions, reinvested automatically in additional Common Shares by American Stock Transfer & Trust Company, LLC, unless the Common Shareholder "opts out" of the plan and elects to receive cash. See "Dividend Reinvestment Plan."

Custodian

The Bank of New York Mellon, Corporate Trust Dealing & Trading-Auctions, 101 Barclay Street, 7W, New York, NY 10286, acts as custodian of the Fund's securities and other assets. Millennium Trust Company, LLC, 2001 Spring Road, Oak Brook, IL 60523 acts as custodian of the Fund's Marketplace Loans.

Shareholder Servicing Agent and Transfer Agent

The shareholder servicing agent, transfer agent and dividend disbursement agent for the Common Shares is American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219.

Share Repurchase Program

Under the Fund's open-market share repurchase program which commenced on June 1, 2016, the Fund may purchase, from time to time, up to 10% of the Fund's Common Shares in open-market transactions, at the discretion of management. Since the inception of the program, the Fund has repurchased a total of 242,561 Common Shares. Applicable law may prevent such repurchases during the offering of the Common Shares described herein. See "Description of Shares—Common Shares—Share Repurchase Program."

Market Price of Common Shares

Shares of closed-end investment companies frequently trade at prices lower than net asset value. The Fund cannot assure you that the Common Shares will trade at a price higher than net asset value in the future. Market price may be affected by such factors relating to the Fund or its portfolio holdings as dividend levels (which are in turn affected by expenses, including the costs of leverage), dividend stability, portfolio credit quality and liquidity and call protection and market supply and demand. See “Leverage,” “Risks and Special Considerations,” “Description of Shares,” and “Repurchase of Common Shares; Conversion to Open-End Fund” in this Prospectus. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

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SUMMARY OF FUND EXPENSES

Shareholder Transaction Expenses

Record Date Sales Load (as a percentage of offering price)(1)	[ ]%
Offering Expenses (as a percentage of offering price)(1)	[ ]%
Dividend Reinvestment Plan Fees(2)	None

Annual Operating Expenses

	Percentage of Managed Assets Attributable to Common Shares
Management Fees(3)	[ ]%
Interest on Borrowed Funds(4)	
Other Expenses(5)	[ ]%
Total Annual Fund Operating Expenses	[ ]%

(1) Estimated maximum amount based on offering of $200 million in Common Shares. Actual sales loads and offering expenses may be higher or lower than these estimates and will be set forth in the Prospectus Supplement if applicable. If the Common Shares are sold to or through underwriters, the Prospectus Supplement will set forth any applicable sales load and the estimated offering expenses. Fund shareholders will pay all offering expenses involved with an offering.

(2) You will pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.

(3) The Investment Manager is entitled to receive an investment management fee of 0.70% per year of the Fund's average daily managed assets. Managed assets are defined as the total assets of the Fund (including any assets attributable to leverage) minus the sum of accrued liabilities (other than the aggregate liquidation preference of any outstanding preferred shares or the outstanding amount of any borrowing or short-term debt securities). If the Fund uses leverage, the amount of fees paid to the Investment Manager for investment management services will be higher than if the Fund does not use leverage because the fees paid are calculated on the Fund's managed assets, which include assets purchased with leverage. The management fee for the Fund reflects the leverage used by the Fund as of its December 31, 2017 fiscal year end, which included 3,600 Auction Preferred Shares (collectively, the "Preferred Shares"), each with a $25,000 liquidation preference totaling $90,000,000. The Preferred Shares were redeemed on August 31, 2018.

(4) On August 10, 2018, the Fund entered into a committed financing arrangement through which the Fund is authorized to borrow up to $100 million. "Interest on Borrowed Funds" reflects an annualized interest charge based on the interest rate and borrowings in effect on September 1, 2018.

(5) "Other Expenses" have been estimated assuming the issuance of $200 million in Common Shares.

Example

An investor would pay the following expenses on a $1,000 investment in the Fund, assuming a 5% annual return:

One Year	Three Years	Five Years	Ten Years
$[ ]	$[ ]	$[ ]	$[ ]

The above table and example are intended to assist investors in understanding the various costs and expenses directly or indirectly associated with investing in Shares of the Fund. The "Example" assumes that all dividends and other distributions are reinvested at net asset value and that the percentage amounts listed in the table above under Total Annual Operating Expenses remain the same in the years shown. The above table and example and the assumption in the example of a 5% annual return are required by regulations of the SEC that are applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Fund's Common Shares. For more complete descriptions of certain of the Fund's costs and expenses, see "Management of the Fund."

The example should not be considered a representation of past or future expenses, and the Fund's actual expenses may be greater than or less than those shown. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance**.** Information is shown for the Fund's last ten fiscal years and for the fiscal period ended December 31, 2017. Certain information reflects financial results for a single Fund Share. The information for the fiscal years ended December 31, 2017 and March 31, 2017, 2016, 2015, 2014 and 2013, has been audited by [ ], independent registered public accounting firm for the Fund, whose reports thereon were unqualified. The information for the fiscal period ended June 30, 2018 is unaudited. The report of [ ] is included in the Fund's December 31, 2017 Annual Report, and is incorporated by reference into the SAI. The Fund's financial statements are included in the Fund's Annual Report and Semi-Annual Report and are incorporated by reference into the SAI.

	Sixth Months Ended June 30, 2018	Year Ended December 31, 2017[a]	Year Ended March 31, 2017	2016	2015	2014	2013
Per Common Share operating performance (for a Common Share outstanding throughout the year)							
Net asset value, beginning of year		$12.91	$12.38	$13.87	$14.36	$14.30	$13.82
Income from investment operations:							

Net investment income[b]	0.48	0.62	0.72	0.73	0.80	0.90
Net realized and unrealized gains (losses)	(0.03)	0.85	(1.41)	(0.33)	0.20	0.62
Dividends to preferred shareholders from net investment income	(0.08)	(0.07)	(0.06)	(0.06)	(0.06)	(0.05)
Total from investment operations	0.37	1.40	(0.75)	0.34	0.94	1.47
Less distributions to Common Shareholders from:						
Net investment income	(0.43)	(0.57)	(0.74)	(0.83)	(0.88)	(0.99)
Tax return of capital	(0.53)	(0.36)	—	—	—	—
Total distributions.	(0.96)	(0.93)	(0.74)	(0.83)	(0.88)	(0.99)
Repurchase of shares	—	0.06	—	—	—	—
Net asset value, end of year	$12.32	$12.91	$12.38	$13.87	$14.36	$14.30
Market value, end of year[c]	$11.83	$11.97	$11.34	$12.17	$13.05	$14.82
Total return (based on market value per share)[d]	7.08%	14.07%	(0.44)%	(0.35)%	(5.85)%	13.41%
Ratios to average net assets applicable to Common Shares[e,f]						
Expenses before waiver and payments by affiliates and expense reduction	1.25%	1.35%	1.16%	1.14%	1.12%	1.13%
Expenses net of waiver and	1.23%[g]	1.32%[g]	1.16%[g,h]	1.14%[g,h]	1.12%[g,h]	1.13%

payments by affiliates and expense reduction						
Net investment income	5.04%	4.83%	5.52%	5.14%	5.65%	6.44%
Supplemental data						
Net assets applicable to Common Shares, end of period (000's)						
	$278,489	$291,875	$332,132	$372,080	$385,388	$383,632
Portfolio turnover rate	168.28%	265.00%	270.16%	289.67%	318.57%	295.39%
Portfolio turnover rate excluding mortgage dollar rolls[i]	46.49%	93.00%	81.78%	92.15%	137.85%	106.42%
Asset coverage per preferred share[j]	$72,311	$74,809	$75,991	$76,665	$78,686	$79,157
Liquidation preference per preferred share[j]	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000

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[a] For the period April 1, 2017 to December 31, 2017.

[b] Based on average daily Common Shares outstanding.

[c] Based on the last sale on the NYSE American.

[d] Total return is not annualized for periods less than one year.

[e] Based on income and expenses applicable to both common and preferred shares.

[f] Ratios are annualized for periods less than one year.

[g] Benefit of expense reduction rounds to less than 0.01%.

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[h] Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[I] See Note 1(e) regarding mortgage dollar rolls.

[j] Preferred Shares were redeemed on August 31, 218.

	Year Ended March 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Per Common Share operating performance					
(for a Common Share outstanding throughout the year)					
Net asset value, beginning of year..	$14.01	$13.48	$10.15	$12.85	$14.24
Income from investment operations:					
Net investment income[a]...	0.92	0.98	0.93	0.93	1.28
Net realized and unrealized gains (losses).................................	(0.04)	0.65	3.40	(2.56)	(1.29)
Dividends to preferred shareholders from net investment income..	(0.05)	(0.05)	(0.05)	(0.14)	(0.37)
Total from investment operations..	0.83	1.58	4.28	(1.77)	(0.38)
Less distributions to Common Shareholders from net investment income..	(1.02)	(1.05)	(0.95)	(0.93)	(1.01)
Net asset value, end of year..	$13.82	$14.01	$13.48	$10.15	$12.85
Market value, end of year[b]..	$14.01	$13.14	$13.40	$ 8.92	$10.94
Total return (based on market value per share).............................	15.03%	6.25%	63.14%	(9.97%)	(16.64%)
Ratios to average net assets applicable to Common Shares[c]					
Expenses before expense reduction...	1.15%	1.14%	1.15%	1.33%	1.28%
Expenses net of expense reduction..	1.15%	1.14%	1.15%[d]	1.33%[d]	1.28%[d]
Net investment income..	6.73%	7.15%	7.47%	8.16%	9.38%
Supplemental data					
Net assets applicable to Common Shares, end of year (000's).......	$370,095	$375,016	$360,798	$271,679	$344,010
Portfolio turnover rate..	302.18%	262.57%	220.09%	203.31%	47.48%
Portfolio turnover rate excluding mortgage dollar rolls[e].................	106.49%	115.51%	66.07%	42.58%	47.48%

Asset coverage per preferred share...	$77,796	$76,096	$78,092	$72,571[f]	$70,264
Liquidation preference per preferred share...................................	$25,000	$25,000	$25,000	$25,000	$25,000

[a] Based on average daily Common Shares outstanding.

[b] Based on the last sale on the NYSE Amex.

[c] Based on income and expenses applicable to both Common Shares and any Preferred Shares outstanding during the relevant year.

[d] Benefit of expense reduction rounds to less than 0.01%

[e] See Note 1(e) regarding mortgage dollar rolls.

[f] Prior amount of $115,173 has been corrected to include the impact of mortgage dollar rolls.

USE OF PROCEEDS

The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objectives and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in debt obligations and other investments that meet its investment objectives and policies within three months after the completion of the offering; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. Pending such investment, the Fund anticipates investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments.

THE FUND

The Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "1940 Act"). The Fund was organized as a Delaware statutory trust on May 8, 2003, pursuant to the Declaration, which is governed by the laws of the State of Delaware. On June 30, 2014, the Fund was renamed from “Franklin Templeton Limited Duration Income Trust” to “Franklin Limited Duration Income Trust.” The Fund’s principal office is located at One Franklin Parkway, San Mateo, California 94403-1906, and its telephone number is 1-800-DIAL-BEN (1-800-342-5236).

The Fund commenced operations on August 26, 2003, upon the initiation of an initial public offering of 24,600,000 of its Common Shares. The proceeds of such offering were approximately $351.7 million after the payment of organizational and offering expenses. On September 25, 2003, the Fund issued an additional 1,000,000 of its Common Shares, and on October 14, 2003, the Fund issued an additional 960,000 of its Common Shares in connection with the exercise by the underwriters of the over-allotment option. The Fund’s Common Shares are traded on the NYSE American under the symbol “FTF”. On November 5, 2003, the Fund issued Preferred Shares, all of which were redeemed by August 31, 2018.

DESCRIPTION OF SHARES

Common Shares

The Declaration authorizes the issuance of an unlimited number of Common Shares. All Common Shares have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common Shares will, when issued, be fully paid and, subject to matters discussed in “Anti-Takeover and Other Provisions in the Declaration of Trust,” non-assessable, and will have no pre-emptive or conversion rights or rights to cumulative voting. Whenever preferred shares and/or borrowings are outstanding, the Fund will not have the power to pay distributions on Common Shares unless all accrued dividends on the preferred shares and interest and principal payments on borrowings have been paid, and unless the applicable asset coverage requirements under the 1940 Act would be satisfied after giving effect to the distribution.

The Common Shares are listed on the NYSE American. The Fund intends to hold annual meetings of shareholders so long as the Common Shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

The Fund’s net asset value per share generally increases when interest rates decline, and generally decreases when interest rates rise, and these changes are likely to be greater because the Fund has a leveraged capital structure.

Unlike open-end funds, closed-end funds like the Fund do not continuously offer shares and do not provide daily redemptions. Rather, if a shareholder determines to buy additional Common Shares or sell shares already held, the shareholder may do so by trading on the exchange through a broker or otherwise. Shares of closed-end investment companies may frequently trade on an exchange at prices lower than net asset value. Shares of closed-end investment companies, like the Fund, that invest predominantly in debt obligations have during some periods traded at prices higher than net asset value and during other periods have traded at prices lower than net asset value. See “Risks and Special Considerations—Net Asset Value Discount Risk.” The Fund’s Declaration limits the ability of the Fund to convert to open-end status. See “Anti-Takeover and Other Provisions in the Declaration of Trust.”

The Fund’s Common Shares have traded in the market below, at and above net asset value since the commencement of the Fund’s operations. However, it has recently been the case that the Fund’s Common Shares have traded at a discount from net asset value. The Fund cannot determine the reasons why the Fund’s Common Shares trade at a premium to or discount from net asset value, nor can the Fund predict whether its Shares will trade in the future at a premium to or discount from net asset value, or the level of any premium or discount. Shares of closed-end investment companies frequently trade at a discount from net asset value. Because the market value of the Common Shares may be influenced by such factors as dividend levels (which are in turn affected by expenses), call protection, dividend stability, portfolio credit quality, net asset value, relative demand for and supply of such shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot assure you that the Common Shares will trade at a price equal to or higher than net asset value in the future. The Common Shares are designed primarily for long-term investors, and investors in the Common Shares should not view the Fund as a vehicle for trading purposes. See "Leverage" and "Repurchase of Common Shares; Conversion to Open-End Fund."

The Fund's outstanding Common Shares are, and when issued, the Common Shares offered by this Prospectus will be, publicly held and listed and traded on the NYSE American. The Fund determines its net asset value on a daily basis. The following table sets forth, for the quarters indicated, the highest and lowest daily closing prices on the NYSE American per Common Share, and the net asset value per Common Share and the premium to or discount from net asset value, on the date of each of the high and low market prices. The table also sets forth the number of Common Shares traded on the NYSE American during the respective quarters.

	NAV per Common Share on Date of Market Price[1]		**NYSE American Market Price per Common Share**[2]		**Premium/ (Discount) on Date of Market Price**[3]			**Trading**
During Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**		**Volume**
March 31, 2016	12.43	12.03	11.36	10.18	-8.608%	-15.378	%	4,540,300
June 30, 2016	12.75	12.36	11.85	11.18	-7.059%	-9.547	%	2,794,800
September 30, 2016	13.11	12.72	12.16	11.53	-7.250%	-9.355	%	3,049,600
December 31, 2016	13.23	12.89	12.42	11.61	-6.122%	-9.930	%	3,696,100
March 31, 2017	13.07	12.95	12.27					