

FRANKLIN UNIVERSAL TRUST
Form N-CSR
October 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSR

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: 8/31/16

Item 1. Reports to Stockholders.

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Annual Report

Franklin Universal Trust

Dear Shareholder:

This annual report for Franklin Universal Trust covers the fiscal year ended August 31, 2016.

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 12 months under review, the Fund's cumulative total returns were +15.18% based on net asset value and +20.76% 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, produced a +8.75% total return,¹ and utilities stocks, as measured by the Standard & Poor's (S&P) 500 Utilities Index, which tracks all electric utility stocks in the broad S&P 500 Index, posted a total return of +20.32% for the same period.²

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

Economic and Market Overview

The U.S. economy grew modestly during the 12-month period ended August 31, 2016, despite a general decline in private inventory and nonresidential fixed investments. However, personal consumption expenditure remained strong during the period. Supply executives reported manufacturing conditions contracted during the first half of the period but expanded in the second half. Similarly, the services sector was also volatile but remained in expansionary territory throughout the period.

Growth in services contributed to new jobs and helped the unemployment rate decrease from 5.1% in August 2015 to 4.9% at period-end.³ Home sales and prices rose amid relatively low mortgage rates. Monthly retail sales grew during most of the review period, and rose to the highest level in April in more than a year, due to a broad-based increase across most retail categories. Although overall retail sales in July remained relatively unchanged, real consumption rose, helped by a jump in auto sales. Inflation, as measured by the Consumer Price Index, moderated in July as the cost of gasoline fell for the first time in five months after reporting its strongest monthly reading over the past three years in April due to a rebound in energy prices.

After maintaining a near-zero interest rate for seven years to support the U.S. economy's recovery, the Federal Reserve (Fed) raised its target range for the federal funds rate to 0.25%–0.50% at its December 2015 meeting, and maintained the rate through the period-end. Although the Fed had hinted at an interest rate hike in June, subsequent reports showed a substantial slowdown in job additions in May. Consequently, at its June meeting, the Fed indicated that in determining the timing and size of future adjustments to the target range, it will assess realized and expected economic conditions relative to its objectives of maximum employment and 2% inflation. However, following strong July employment data, the Fed Chair signaled that interest rates could increase in the near term, given continued strength in labor market conditions and the Fed's positive outlook on future economic growth.

The 10-year Treasury yield, which moves inversely to price, shifted throughout the period. It rose from 2.21% on August 31, 2015, to a period high of 2.36% in November. The Treasury yield declined in 2016 and ended the period at 1.58% after the Fed kept interest rates unchanged.

Investment Strategy

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

1. Source: Credit Suisse Group.

2. Source: Morningstar.

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

3. Source: Bureau of Labor Statistics.

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.

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

Manager’s Discussion

During the 12-month period ended August 31, 2016, the Fund’s primary asset classes, high yield corporate bonds and utility stocks, delivered positive results. The U.S. economy continued its moderate pace of growth during the year under review. The yield on the 10-year Treasury bond, which began the period at 2.2%, declined to 1.6% by period-end as negative yields in Europe and Japan continued to drive government bond investors to U.S. Treasuries. Weakness in commodity prices during the first half of the period as well as concerns over the state of the Chinese economy served to create an environment of risk aversion. The second half of the period, however, saw a reversal of global sentiment as the U.S. Federal Reserve (Fed) left interest rates unchanged, and various economic indicators

Portfolio Breakdown

8/31/16

	% of Total Investments*
Corporate Bonds	66.0 %
Utilities Common Stocks	30.0 %
Natural Resources Common Stocks	1.3 %
Materials Common Stocks	0.6 %
Senior Floating Rate Interests	0.3 %
Convertible Preferred Stocks	0.1 %
Transportation Common Stocks**	0.0 %
Short-Term Investments & Other Net Assets	1.7 %

*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%

reflected a strong U.S. economy. Crude oil prices declined near the beginning of 2016, but made a substantial rebound by period-end. Other major commodities followed a similar pattern including the metals and mining and energy sectors of the CS High Yield Index, both of which posted substantial returns during the period.⁴ High yield corporate bonds, which are highly sensitive to growth expectations, generated negative returns in four of the first six months of the period, but generated positive returns in all six months of the second half of the period. With the metals and mining and energy sectors leading the way, the CS High Yield Index returned +14.50% year to date and +8.75% over the period under review. Overall, spreads over Treasuries compressed from 6.2% to 5.2%, even with lower Treasury yields at the period-end. Utility stocks benefited from the overall decline in interest rates as well as from investors’ belief that challenges to global growth would limit rate increases by the Fed. In addition, despite many utility stocks being regulated, the sector posted a solid total return for the period given increases in commodity prices. Overall, utility stocks, as measured by the S&P 500 Utilities Index, generated a +20.32% return during the period.

High Yield Corporate Bonds

Overall, the Fund benefited from its position in the metals and mining and energy sectors during the period. Relative to the CS High Yield Index, we held generally overweighted allocations to both sectors during the period. In the beginning of the period, energy bonds sold off in conjunction with the steady decline in oil prices, and natural gas prices also weakened due to warmer winter weather that further pressured the sector. Metals and mining underperformed due to weak commodity pricing. Oversupply in many commodities coupled with concerns over slowing growth in China led to falling prices. These trends reversed during the second half of the period, however, as a more balanced supply-demand profile helped many commodity prices, and subsequently commodity producers.

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The Fund's overweighted allocation to the health care sector detracted from relative performance over the period. In a period where there have been concerns about drug prices, broader healthcare costs, as well as questionable accounting practices at one of the largest companies in the sector, health care has not rallied as strongly as other high yield sectors, particularly during the second half of the period.

Utility Stocks

The utilities sector, as measured by the S&P 500 Utilities Index, returned +20.32% for the year, outperforming the +12.55% return of the S&P 500 Index.² For the first half of the period, utility stocks benefited from their perceived higher quality nature, as well as from their domestic U.S. focus, as they were largely immune to any impacts from slower foreign growth. Despite being regulated, many utilities also benefited from prevailing commodity prices near period-end, which were considerably higher than at the beginning. Finally, with the Fed taking limited action with regard to interest rates during the

4. Metals and mining holdings are in materials in the SOI.

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Top 10 Holdings*

Based on Total Investments**

8/31/16 vs. 8/31/15

Issuer	8/31/16
Dominion Resources Inc.	2.3 %
Sempra Energy	2.1 %
NextEra Energy Inc.	2.0 %
American Electric Power Co. Inc.	1.9 %
Duke Energy Corp.	1.8 %
Edison International	1.8 %
Pinnacle West Capital Corp.	1.7 %
The Southern Co.	1.4 %
Navient Corp.	1.3 %
Westar Energy Inc.	1.3 %

Issuer	8/31/15
Dominion Resources Inc.	2.9 %
Duke Energy Corp.	2.4 %
NextEra Energy Inc.	2.1 %
Sempra Energy	2.0 %
Edison International	1.8 %
Pinnacle West Capital Corp.	1.7 %
American Electric Power Co. Inc.	1.7 %
The Southern Co.	1.6 %
Entergy Corp.	1.4 %
CenterPoint Energy Inc.	1.3 %

*Excludes money market funds.

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

period, expectations for continued low short-term rates combined with a decline in Treasury yields supported the utility sector.

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

Sincerely,

The foregoing information reflects our analysis, opinions and portfolio holdings as of August 31, 2016, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on

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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.

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Performance Summary as of August 31, 2016

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. 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 gains distributions, if any, or any realized gains on the sale of Fund shares.

Share Prices

Symbol: FT		8/31/16		8/31/15	Change
Net Asset Value (NAV)	\$	7.67	\$	7.11	+\$0.56
Market Price (NYSE)	\$	6.84	\$	6.10	+\$0.74

Distributions¹ (9/1/15–8/31/16)

Dividend Income

\$ 0.4665

Performance²

	Cumulative Total Return ³		Average Annual Total Return ³		Average Annual Total Return (9/30/16) ⁴	
	Based on	Based on	Based on	Based on	Based on	Based on
	NAV5	market price ⁶	NAV5	market price ⁶	NAV5	market price ⁶
1-Year	+15.18 %	+20.76 %	+15.18 %	+20.76 %	+18.62 %	+23.72 %
5-Year	+51.62 %	+51.35 %	+8.68 %	+8.64 %	+9.50 %	+8.80 %
10-Year	+108.42 %	+117.38 %	+7.62 %	+8.07 %	+7.68 %	+7.97 %

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.

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. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.

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1. The distribution amount is the sum of the dividend payments to shareholders for the period shown and includes only estimated tax-basis net investment income.
2. 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 its current fiscal year-end. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.
3. 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.
4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
5. Assumes reinvestment of distributions based on net asset value.
6. 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.

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Financial Highlights

	Year Ended August 31,				
	2016	2015	2014	2013	2012
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 7.11	\$ 8.34	\$ 7.61	\$ 7.47	\$ 6.87
Income from investment operations:					
Net investment income ^a	0.39	0.45	0.47	0.43	0.45
Net realized and unrealized gains (losses)	0.64	(1.21)	0.73	0.17	0.61
Total from investment operations	1.03	(0.76)	1.20	0.60	1.06
Less distributions from net investment income	(0.47)	(0.47)	(0.47)	(0.46)	(0.46)
Net asset value, end of year.	\$ 7.67	\$ 7.11	\$ 8.34	\$ 7.61	\$ 7.47
Market value, end of year ^b	\$ 6.84	\$ 6.10	\$ 7.39	\$ 6.76	\$ 7.38
Total return (based on market value per share)	20.76 %	(11.57)%	16.71 %	(2.45)%	24.47 %
Ratios to average net assets					
Expenses before waiver and payments by affiliates	2.13 %	1.97 %	1.97 %	2.34 %	2.46 %
Expenses net of waiver and payments by affiliates	2.12 % ^c	1.97 % ^d	1.97 % ^d	2.34 %	2.46 %
Net investment income	5.48 %	5.63 %	5.76 %	5.58 %	6.20 %
Supplemental data					
Net assets, end of year (000's)	\$ 192,682	\$ 178,747	\$ 209,674	\$ 191,223	\$ 187,729
Portfolio turnover rate	21.13 %	20.30 %	18.25 %	21.95 %	19.40 %
Total debt outstanding at end of year (000's)	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 42,000
Asset coverage per \$1,000 of debt	\$ 4,211	\$ 3,979	\$ 4,495	\$ 4,187	\$ 5,470
Average amount of senior rate fixed Notes per share during the year.	\$ 2.39	\$ 2.39	\$ 2.39	\$ 1.68	\$ 1.67

^aBased on average daily shares outstanding.^bBased on the last sale on the New York Stock Exchange.^cBenefit of expense reduction rounds to less than 0.01%.^dBenefit of waiver and payments by affiliates and expense reduction rounds to less than 0.01%.

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Statement of Investments, August 31, 2016

	Country	Shares/ Warrants	Value
Common Stocks and Other Equity Interests 41.8%			
Energy 1.7%			
Spectra Energy Corp	United States	90,000 \$	3,205,800
Materials 0.8%			
BHP Billiton PLC, ADR	Australia	25,185	649,521
Freeport-McMoRan Inc., B	United States	80,380	827,110
^a South32 Ltd., ADR	Australia	10,074	71,777
^a Verso Corp., A	United States	3,330	21,013
^a Verso Corp., wts., 7/15/23.	United States	350	—
			1,569,421
Transportation 0.0%†			
^{a,b} CEVA Holdings LLC.	United Kingdom	179	62,800
Utilities 39.3%			
Alliant Energy Corp	United States	80,000	3,036,000
American Electric Power Co. Inc	United States	75,000	4,842,750
CenterPoint Energy Inc	United States	122,800	2,759,316
CMS Energy Corp	United States	65,000	2,728,050
Consolidated Edison Inc	United States	40,000	3,009,600
Dominion Resources Inc	United States	80,000	5,932,800
DTE Energy Co	United States	25,000	2,322,500
Duke Energy Corp	United States	57,560	4,585,230
Edison International.	United States	61,000	4,435,920
Entergy Corp	United States	30,000	2,346,000
Exelon Corp	United States	55,000	1,870,000
FirstEnergy Corp	United States	60,000	1,963,200
Great Plains Energy Inc	United States	70,000	1,901,200
NextEra Energy Inc	United States	41,500	5,019,010
PG&E Corp	United States	50,000	3,097,000
Pinnacle West Capital Corp	United States	56,000	4,201,680
PPL Corp	United States	80,000	2,782,400

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Public Service Enterprise Group Inc	United States	45,000	1,924,650
Sempra Energy	United States	50,000	5,233,500
The Southern Co	United States	68,250	3,503,272
WEC Energy Group Inc	United States	40,000	2,395,200
Westar Energy Inc	United States	60,000	3,296,400
Xcel Energy Inc	United States	60,000	2,481,600
			75,667,278
Total Common Stocks and Other Equity Interests			
(Cost \$41,597,129)			80,505,299

Convertible Preferred Stocks 0.1%

Transportation 0.1%

a,b CEVA Holdings LLC, cvt. pfd., A-1	United Kingdom	6	3,000
a,b CEVA Holdings LLC, cvt. pfd., A-2	United Kingdom	388	135,944
Total Convertible Preferred Stocks (Cost \$587,092)			138,944

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STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
Corporate Bonds 86.6%			
Automobiles & Components 1.6%			
Fiat Chrysler Automobiles NV, senior note, 5.25%, 4/15/23.	United Kingdom	\$ 2,000,000	\$ 2,070,380
The Goodyear Tire & Rubber Co., senior bond, 5.00%, 5/31/26	United States	600,000	629,622
senior note, 5.125%, 11/15/23	United States	300,000	315,000
			3,015,002
Banks 3.5%			
CIT Group Inc., senior note, 5.375%, 5/15/20	United States	500,000	535,625
senior note, 5.00%, 8/15/22	United States	1,200,000	1,275,000
^c senior note, 144A, 6.625%, 4/01/18	United States	300,000	320,400
^d Citigroup Inc., junior sub. bond, M, 6.30% to 5/15/24, FRN thereafter, Perpetual	United States	1,100,000	1,139,875
^d JPMorgan Chase & Co., junior sub. bond, R, 6.00% to 8/01/23, FRN thereafter, Perpetual	United States	900,000	951,030
junior sub. bond, V, 5.00% to 7/30/19, FRN thereafter, Perpetual	United States	1,100,000	1,098,625
Royal Bank of Scotland Group PLC, sub. note, 6.125%, 12/15/22	United Kingdom	900,000	963,495
sub. note, 5.125%, 5/28/24	United Kingdom	400,000	405,230
			6,689,280
Capital Goods 1.6%			
^c Cloud Crane LLC, secured note, second lien, 144A, 10.125%, 8/01/24	United States	200,000	208,000