

ANNUAL REPORT

# FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

December 31, 2019



FRANKLIN  
TEMPLETON

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You may elect to receive all future Fund shareholder reports in paper free of charge from the insurance company. You can inform the insurance company or your financial intermediary that you wish to continue receiving paper copies of your shareholder reports by following the instructions provided by the insurance company or by contacting your financial intermediary. Your election to receive reports in paper will apply to all portfolio companies available under your contract with the insurance company.

This notice is not legally a part of the shareholder report.

# Franklin Templeton Variable Insurance Products Trust Annual Report

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**Not FDIC Insured | May Lose Value | No Bank Guarantee**

# Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity,

indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

# Franklin Mutual Shares VIP Fund

This annual report for Franklin Mutual Shares VIP Fund covers the fiscal year ended December 31, 2019.

## Class 2 Performance Summary as of December 31, 2019

Average annual total return of Class 2 shares\* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

| Periods ended 12/31/19      | 1-Year  | 5-Year | 10-Year |
|-----------------------------|---------|--------|---------|
| Average Annual Total Return | +22.57% | +5.91% | +8.69%  |

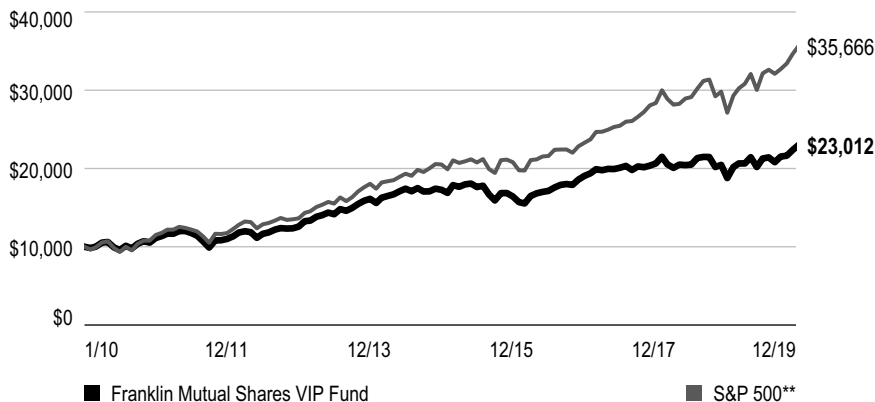
\*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/20. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does **not** include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

*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.*

### Total Return Index Comparison for a Hypothetical \$10,000 Investment (1/1/10–12/31/19)

The graph below shows the change in value of a hypothetical \$10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance\* is compared to the performance of the Standard & Poor's® 500 Index (S&P 500®). One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. **Please see Important Notes to Performance Information preceding the Fund Summaries.**



\*\*Source: Morningstar. Please see Index Descriptions following the Fund Summaries.

## Fund Goal and Main Investments

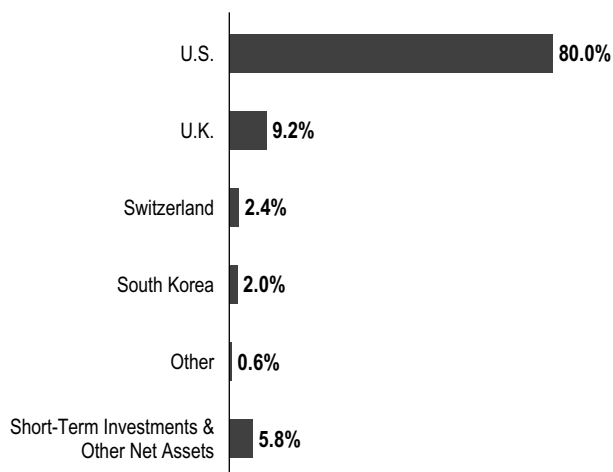
The Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in U.S. and foreign equity securities that we believe are available at market prices less than their intrinsic value. The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies. The Fund may invest up to 35% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

## Fund Risks

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. The Fund's investments in foreign securities involve more risks than investing in U.S. securities, including currency exchange rates and policies, country or government specific issues, less favorable trading practices regulation and greater price volatility. Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund's initial investment. The Fund may also invest in companies engaged in mergers, reorganizations or liquidations, which involve special risks as pending deals may not be completed on time or on favorable terms, as well as lower-rated bonds, which entail higher credit risk. To the extent that the Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, the Fund may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

## Geographic Composition\*

Based on Total Net Assets as of 12/31/19



\*Figures are stated as a percentage of total and may not equal 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

## Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the Fund's benchmark, the S&P 500 posted a +31.49% total return for the period under review.<sup>1</sup>

## Economic and Market Overview

Global developed and emerging market stocks, as measured by the MSCI All Country World Index, posted strong returns during the reporting period. Although global economic growth slowed from 2018, interest-rate cuts from many central banks and the easing of trade tensions near period-end contributed to the generally positive environment for equities worldwide. Reflecting investor optimism and slowing but resilient economic growth, stocks advanced in every major region of the globe.

In the U.S., solid economic growth also supported equities, as healthy consumer spending and a strong labor market kept the economy afloat. The unemployment rate fell during the year, reaching 3.5% in September, November and December 2019, the lowest recorded unemployment rate in 50 years.<sup>2</sup> Wages also grew, albeit at a moderate pace, and inflation remained persistently low. In addition, deficit spending by the U.S. government boosted current growth at

1. Source: Morningstar. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Please see Index Descriptions following the Fund Summaries.

2. Source: U.S. 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 expense of long-term debt. Despite the strength in the consumer sector, some parts of the economy struggled, particularly heavy industry. Annual industrial production contracted late in the reporting period, manufacturing output stalled and capital spending declined.

The U.S. Federal Reserve (Fed) provided a substantial boost to equity markets early in the reporting period as it shifted to a more accommodative monetary policy. In January 2019, the Fed signaled the end of its tightening cycle and cut the federal funds rate three times thereafter, lowering it to a range of 1.50%–1.75%. Stocks responded positively to the interest-rate cuts and gained further in December 2019 after the Fed indicated it would likely leave interest rates unchanged in 2020.

Growth slowed overall in the eurozone, particularly in Germany and Italy. Germany, which is heavily reliant on exports, was adversely affected by the trade conflict between the U.S. and China and the resulting slowdown in global trade. In Italy, political uncertainty and budget concerns caused the country's annual gross domestic product (GDP) growth to stall in 2019's first quarter before accelerating in the second quarter. Despite sluggish economic conditions, European developed market equities, as measured by the MSCI Europe Index, posted strong returns overall, as easing trade tensions buoyed investor optimism and an electoral victory by the Conservative Party in the U.K. alleviated uncertainty surrounding Brexit. Although the European Central Bank left its headline refinancing rate unchanged, it lowered the deposit rate and restarted its bond-buying stimulus program, further supporting stocks.

Economic growth in Asia was relatively solid overall, despite slowdowns in several large emerging market countries, such as China and India. Japan's economy grew amid the Bank of Japan's sizable stimulus program. The trade war between the U.S. and China provided the backdrop for Asian stocks, which rose and fell in sync with investor sentiment regarding a trade deal. A phase one trade agreement between the two countries reached in December 2019 propelled Asian developed and emerging market stocks, which ultimately ended with strong returns over the 12-month period, as measured by the MSCI All Country Asia Index.

Emerging market stocks overall experienced several sharp selloffs and subsequent rebounds throughout the reporting period before ending with gains. In aggregate, economic growth slowed somewhat from 2018 but remained solid, although there was some variation among individual countries. Many central banks in emerging markets cut interest rates throughout the reporting period which, along with resilient GDP growth, provided a supportive

## Top 10 Sectors/Industries

12/31/19

|  | % of Total<br>Net Assets |
|--|--------------------------|
| Pharmaceuticals                            | 9.9%                     |
| Banks                                      | 9.7%                     |
| Insurance                                  | 8.2%                     |
| Oil, Gas & Consumable Fuels                | 7.7%                     |
| Media                                      | 6.3%                     |
| Technology Hardware, Storage & Peripherals | 4.3%                     |
| Tobacco                                    | 3.1%                     |
| Health Care Equipment & Supplies           | 3.1%                     |
| Software                                   | 3.1%                     |
| Food Products                              | 3.0%                     |

environment for equities. Russian stocks posted the highest returns among emerging markets as the threat of further sanctions receded and a solid fiscal environment reassured investors. Overall, global emerging markets, as measured by the MSCI Emerging Markets Index, posted robust returns for the period.

## Investment Strategy

At Franklin Mutual Advisors, we are committed to our distinctive value approach to investing. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are attracted to what we believe are fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset-rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

We complement this more traditional investment strategy with two others. One is distressed investing, which is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as “deals,” the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company’s stock when it is trading below the value we believe it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, it is our practice to hedge the Fund’s currency exposure when we deem it advantageous for our shareholders.

#### What is meant by “hedge”?

To hedge an investment is to take a position intended to offset potential losses that may be incurred by a companion financial instrument. Hedging an investment may also offset potential gains.

## Manager’s Discussion

The end of a decade is a natural time for reflection about the years that have just passed and to look ahead to what the next 10 might have in store. Across Wall Street, we see many prognostications, and while we are not in the forecasting business, we do allow ourselves to think about investment opportunities over such an extended time period. But experience has taught us that while trying to predict the exact course of markets and/or economic and political events that will drive them may be fun, it is not all that useful.

As 2010 began, the global economy was still recovering from the Global Financial Crisis. The U.S. government owned significant portions of the banking and automotive sectors. The Fed had already started quantitative easing (QE), with QE 2 and QE 3 still to come. In Europe, concerns about Greece’s finances were emerging, and in China the effects of 2009’s massive stimulus programs were starting to take hold.

Over the subsequent years we saw ongoing, global QE, culminating in trillions of dollars of debt yielding negative interest rates. The European Union (EU) was in continuous upheaval, with Greece threatening to leave, but eventually staying in the eurozone; the U.K. pursuing and achieving Brexit; and ongoing strain between core members Germany, France, Italy and Spain. In the U.S., average annual economic growth was restrained and finished the decade below 2%, trailing the minimum 3% expectation of prior

decades. Strong corporate profits and lower corporate tax rates were bright spots.

Equity markets delivered a very good decade—one of the best in history—with the S&P 500 and the MSCI World Index posting average annual total returns of +13.56% and +10.08%, respectively.<sup>1</sup> During the decade, Franklin Mutual Shares VIP Fund posted a solid return that nonetheless lagged the S&P 500, its benchmark. The Fund’s value strategy, which seeks to identify mispriced securities and limits downside risk, was out of favor in an environment that generally encouraged investors to assume more risk. Conversely, in the prior decade, the Fund outperformed the MSCI World Index. Our active investment approach focusing on individual opportunities was more conducive to the prior decade’s greater volatility.

In our view, going forward we expect more political and monetary uncertainty and economic growth in unexpected places. Corporate profits will have good years and bad years. Some industries will be massively disrupted, while others will find a way to adjust and prosper, even within the context of artificial intelligence and machine learning. Recent events, such as the coronavirus outbreak, have caused, and may continue to cause, uncertainty and volatility in the Chinese economy, potentially leading to vulnerability in 2020 global growth expectations. As for investment positioning, we intend to avoid forecasts that would lead us to make the Fund’s success dependent on a specific set of outcomes. Rather, we will seek to continue with our time-tested value process and complement it with new tools that enhance our security evaluation and selection process. To that end, we have integrated risk and quantitative portfolio analysis tools that provide us with fresh insights about performance, and help us identify companies and securities that we believe satisfy our investors’ goals of risk-adjusted returns that are not wholly dependent on any one economic or political scenario.

### Fund Performance

Turning to Fund performance, top positive contributors included U.S.-based companies Charter Communications, Citigroup and Walt Disney.

Shares of cable operator Charter Communications surged after the company reported operating and financial results that were broadly ahead of consensus estimates. Capital expenditures were lower than expected and drove free cash flow, which was used during the period to buy back \$3.1 billion of the company’s stock. The market was anticipating share repurchases totaling \$2.25 billion. Revenue accelerated 5.1% compared with consensus



forecasts of 4.5%. The increased revenue, however, did not reflect the impact of a broad-based increase in subscriber fees implemented during the period, which could drive revenue growth and margin expansion in 2020. According to the company's management, there has not been a meaningful decrease in customers as a result of the higher subscriber fees.

Investors bid up shares of bank and financial service provider Citigroup following the release of third-quarter earnings that beat consensus expectations. Highlights included increases in deposits of 6% quarter-over-quarter and 11% year-over-year; growth in revenues and purchase volumes in the North America-branded cards division by 11% and 7% year-over-year, respectively; and strong results in the bank's Asian operations across the board. Management also repurchased 76 million, or 3.3%, of outstanding shares of the company during the period.

Shares of family entertainment and media enterprise Walt Disney surged in late 2019. The rally was kicked off by an earnings report characterized by across-the-board outperformance of Disney legacy assets and a better-than-expected outlook for fiscal-year 2020 earnings. The company's stock continued to rise following the successful launch of Disney+, which reported more than 10 million subscribers on the first day of service, exceeding forecasts. The box office performance of Frozen II, which set a record for Thanksgiving-weekend receipts, also helped boost the stock's performance.

During the period under review, Fund investments that detracted from performance included U.S.-based companies Fluor (not held at period-end), Occidental Petroleum and Walgreens Boots Alliance.

The share price of Fluor, a global engineering and construction company, fell significantly during the period. The company withdrew 2019 guidance after reporting significant project charges and materially lower-than-expected earnings and revenues. Following these disappointing results, the company announced the return of the former chief executive officer (CEO) as executive chairman, promoted the general counsel to CEO, rehired the former chief financial officer and initiated a strategic review that recommends simplifying the company's business model by divesting of non-core businesses.

The stock of Occidental Petroleum, a petroleum and chemical products company, traded lower in 2019 as investors struggled to accept its acquisition of Anadarko Petroleum, during a period in which energy stocks were under pressure from falling crude oil prices. We think the

## Top 10 Holdings

12/31/19

| Company<br>Sector/Industry, Country                     | % of Total<br>Net Assets |
|---|--------------------------|
| Medtronic PLC<br>Health Care Equipment & Supplies, U.S. | 3.1%                     |
| Novartis AG<br>Pharmaceuticals, Switzerland             | 2.4%                     |
| Charter Communications Inc.<br>Media, U.S.              | 2.3%                     |
| Alleghany Corp.<br>Insurance, U.S.                      | 2.3%                     |
| GlaxoSmithKline PLC<br>Pharmaceuticals, U.K.            | 2.2%                     |
| JPMorgan Chase & Co.<br>Banks, U.S.                     | 2.2%                     |
| American International Group Inc.<br>Insurance, U.S.    | 2.2%                     |
| The Walt Disney Co.<br>Entertainment, U.S.              | 2.2%                     |
| Citigroup Inc.<br>Banks, U.S.                           | 2.2%                     |
| Wells Fargo & Co.<br>Banks, U.S.                        | 2.1%                     |

Anadarko deal should be highly beneficial to the company's per share metrics, although the acquisition will make the company more dependent on oil prices, while significantly weakening its balance sheet. The acquired Permian Basin assets complement Occidental's existing portfolio, and the considerable free cash flow generated from Anadarko's Gulf of Mexico operations can help reduce debt and support its dividend. Occidental's management is strengthening the company's financial position by disposing of non-core assets, which is key to restoring investor confidence, in our view.

Shares of drug store services provider Walgreens Boots Alliance began to sell off early in 2019, when the chief financial officer cited negative industry trends in drug prices and pharmacy benefit manager (PBM) reimbursement rates. Shares also fell in reaction to the company's limited success in offsetting those challenges by increasing its volume of drug sales or renegotiating with PBMs. These pressures, and weakness in both its U.S. and U.K. stores, resulted in a cut to full-year guidance in April. However, Walgreens is reducing costs throughout the enterprise, and is attempting to reduce exposure to lower margin categories within the front of its stores, which we believe can help boost growth and profitability over the longer term. The company's share price rallied in early November based on news that global

investment firm KKR had approached the company about taking it private via a leveraged buyout that would likely be the largest in history. However, the stock retreated later when deal terms failed to materialize.

During the period, the Fund held currency forwards and futures seeking to hedge most of the currency risk of the portfolio's non-U.S. dollar investments. The hedges had a modestly positive overall impact on the Fund's performance.

**What is a currency forward?**

A currency forward is a direct agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date.

**What is a future?**

A future is an agreement between the Fund and a counterparty made through a U.S. or foreign futures exchange to buy or sell an underlying instrument or asset at a specific price on a future date.

Thank you for your participation in Franklin Mutual Shares VIP Fund. We look forward to serving your future investment needs.

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*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2019, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

## Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract Level: (1) transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes; and (2) ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses. The table below shows Fund-level ongoing expenses and can help you understand these costs and compare them with those of other mutual funds offered through the Contract. The table assumes a \$1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

### Actual Fund Expenses

The table below provides information about the actual account values and actual expenses in the columns under the heading “Actual.” In these columns the Fund’s actual return, which includes the effect of ongoing Fund expenses but does not include the effect of ongoing Contract expenses, is used to calculate the “Ending Account Value.” You can estimate the Fund-level expenses you paid during the period by following these steps (*of course, your account value and expenses will differ from those in this illustration*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then  $\$8,600 \div \$1,000 = 8.6$* ). Then multiply the result by the number under the headings “Actual” and “Fund-Level Expenses Paid During Period” (*if Fund-Level Expenses Paid During Period were \$ 7.50, then  $8.6 \times \$ 7.50 = \$64.50$* ). In this illustration, the estimated expenses paid this period at the Fund level are \$64.50.

### Hypothetical Example for Comparison with Other Mutual Funds

Under the heading “Hypothetical” in the table, information is provided about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other mutual funds offered through the Contract. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds offered through the Contract.

*Please note that expenses shown in the table are meant to highlight ongoing costs at the Fund level only and do not reflect any ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. In addition, while the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.*

| Share Class | Beginning Account Value 7/1/19 | Actual<br>(actual return after expenses) |  | Hypothetical<br>(5% annual return before expenses) |  | Net Annualized Expense Ratio <sup>2</sup> |
|-------------|--------------------------------|--|--|--|--|---|
|             |                                | Ending Account Value 12/31/19            | Fund-Level Expenses Paid During Period 7/1/19–12/31/19 <sup>1, 2</sup> | Ending Account Value 12/31/19                      | Fund-Level Expenses Paid During Period 7/1/19–12/31/19 <sup>1, 2</sup> |   |
| Class 2     | \$1,000                        | \$1,081.50                               | \$5.04   | \$1,020.37   | \$4.89   | 0.96%                                     |

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include any ongoing expenses of the Contract for which the Fund is an investment option or acquired fund fees and expenses.

## Financial Highlights

### Franklin Mutual Shares VIP Fund

|  | Year Ended December 31, |           |           |           |           |
|--|-------------------------|-----------|-----------|-----------|-----------|
|  | 2019                    | 2018      | 2017      | 2016      | 2015      |
| <b>Class 1</b>   |                         |           |           |           |           |
| <b>Per share operating performance</b>                               |                         |           |           |           |           |
| (for a share outstanding throughout the year)                        |                         |           |           |           |           |
| Net asset value, beginning of year . . . . .                         | \$17.71                 | \$20.71   | \$20.40   | \$19.48   | \$22.91   |
| Income from investment operations <sup>a</sup> :                     |                         |           |           |           |           |
| Net investment income <sup>b</sup> . . . . .                         | 0.46                    | 0.36      | 0.49      | 0.50      | 0.44      |
| Net realized and unrealized gains (losses) . . . . .                 | 3.39                    | (2.04)    | 1.22      | 2.56      | (1.54)    |
| Total from investment operations . . . . .                           | 3.85                    | (1.68)    | 1.71      | 3.06      | (1.10)    |
| Less distributions from:   |                         |           |           |           |           |
| Net investment income . . . . .                                      | (0.42)                  | (0.55)    | (0.53)    | (0.46)    | (0.77)    |
| Net realized gains . . . . .   | (1.95)                  | (0.77)    | (0.87)    | (1.68)    | (1.56)    |
| Total distributions . . . . .  | (2.37)                  | (1.32)    | (1.40)    | (2.14)    | (2.33)    |
| Net asset value, end of year . . . . .                               | \$19.19                 | \$17.71   | \$20.71   | \$20.40   | \$19.48   |
| Total return <sup>c</sup> . . . . .                                  | 22.92%                  | (8.86)%   | 8.64%     | 16.35%    | (4.69)%   |
| <b>Ratios to average net assets</b>                                  |                         |           |           |           |           |
| Expenses <sup>d,e</sup> . . . . .                                    | 0.71%                   | 0.71%     | 0.72%     | 0.72%     | 0.73%     |
| Expenses incurred in connection with securities sold short . . . . . | 0.02%                   | 0.01%     | —%        | 0.01%     | 0.02%     |
| Net investment income . . . . .                                      | 2.35%                   | 1.77%     | 2.34%     | 2.57%     | 2.00%     |
| <b>Supplemental data</b>   |                         |           |           |           |           |
| Net assets, end of year (000's) . . . . .                            | \$158,431               | \$537,324 | \$653,700 | \$610,395 | \$643,438 |
| Portfolio turnover rate . . . . .                                    | 38.50%                  | 24.67%    | 18.32%    | 24.45%    | 19.88%    |

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

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

<sup>c</sup>Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

<sup>d</sup>Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(e).

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

**Franklin Mutual Shares VIP Fund** (continued)

|  | Year Ended December 31, |             |             |             |             |
|--|-------------------------|-------------|-------------|-------------|-------------|
|  | 2019                    | 2018        | 2017        | 2016        | 2015        |
| <b>Class 2</b>   |                         |             |             |             |             |
| <b>Per share operating performance</b>                               |                         |             |             |             |             |
| (for a share outstanding throughout the year)                        |                         |             |             |             |             |
| Net asset value, beginning of year . . . . .                         | \$17.40                 | \$20.36     | \$20.08     | \$19.20     | \$22.60     |
| Income from investment operations <sup>a</sup> :                     |                         |             |             |             |             |
| Net investment income <sup>b</sup> . . . . .                         | 0.40                    | 0.31        | 0.43        | 0.45        | 0.38        |
| Net realized and unrealized gains (losses) . . . . .                 | 3.32                    | (2.00)      | 1.20        | 2.52        | (1.51)      |
| Total from investment operations . . . . .                           | 3.72                    | (1.69)      | 1.63        | 2.97        | (1.13)      |
| Less distributions from:   |                         |             |             |             |             |
| Net investment income . . . . .                                      | (0.36)                  | (0.50)      | (0.48)      | (0.41)      | (0.71)      |
| Net realized gains . . . . .   | (1.95)                  | (0.77)      | (0.87)      | (1.68)      | (1.56)      |
| Total distributions . . . . .  | (2.31)                  | (1.27)      | (1.35)      | (2.09)      | (2.27)      |
| Net asset value, end of year . . . . .                               | \$18.81                 | \$17.40     | \$20.36     | \$20.08     | \$19.20     |
| Total return <sup>c</sup> . . . . .                                  | 22.57%                  | (9.07)%     | 8.35%       | 16.06%      | (4.94)%     |
| <b>Ratios to average net assets</b>                                  |                         |             |             |             |             |
| Expenses <sup>d,e</sup> . . . . .                                    | 0.96%                   | 0.96%       | 0.97%       | 0.97%       | 0.98%       |
| Expenses incurred in connection with securities sold short . . . . . | 0.02%                   | 0.01%       | —%          | 0.01%       | 0.02%       |
| Net investment income . . . . .                                      | 2.10%                   | 1.52%       | 2.09%       | 2.32%       | 1.75%       |
| <b>Supplemental data</b>   |                         |             |             |             |             |
| Net assets, end of year (000's) . . . . .                            | \$2,931,753             | \$2,516,834 | \$3,476,913 | \$3,621,358 | \$3,353,505 |
| Portfolio turnover rate . . . . .                                    | 38.50%                  | 24.67%      | 18.32%      | 24.45%      | 19.88%      |

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

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

<sup>c</sup>Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

<sup>d</sup>Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(e).

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

**Franklin Mutual Shares VIP Fund** (continued)

|  | Year Ended December 31, |           |           |           |           |
|--|-------------------------|-----------|-----------|-----------|-----------|
|  | 2019                    | 2018      | 2017      | 2016      | 2015      |
| <b>Class 4</b>   |                         |           |           |           |           |
| <b>Per share operating performance</b>                               |                         |           |           |           |           |
| (for a share outstanding throughout the year)                        |                         |           |           |           |           |
| Net asset value, beginning of year . . . . .                         | \$17.55                 | \$20.53   | \$20.23   | \$19.32   | \$22.72   |
| Income from investment operations <sup>a</sup> :                     |                         |           |           |           |           |
| Net investment income <sup>b</sup> . . . . .                         | 0.38                    | 0.29      | 0.41      | 0.44      | 0.36      |
| Net realized and unrealized gains (losses) . . . . .                 | 3.36                    | (2.02)    | 1.21      | 2.53      | (1.52)    |
| Total from investment operations . . . . .                           | 3.74                    | (1.73)    | 1.62      | 2.97      | (1.16)    |
| Less distributions from:   |                         |           |           |           |           |
| Net investment income . . . . .                                      | (0.35)                  | (0.48)    | (0.45)    | (0.38)    | (0.68)    |
| Net realized gains . . . . .   | (1.95)                  | (0.77)    | (0.87)    | (1.68)    | (1.56)    |
| Total distributions . . . . .  | (2.30)                  | (1.25)    | (1.32)    | (2.06)    | (2.24)    |
| Net asset value, end of year . . . . .                               | \$18.99                 | \$17.55   | \$20.53   | \$20.23   | \$19.32   |
| Total return <sup>c</sup> . . . . .                                  | 22.44%                  | (9.16)%   | 8.25%     | 15.94%    | (5.05)%   |
| <b>Ratios to average net assets</b>                                  |                         |           |           |           |           |
| Expenses <sup>d,e</sup> . . . . .                                    | 1.06%                   | 1.06%     | 1.07%     | 1.07%     | 1.08%     |
| Expenses incurred in connection with securities sold short . . . . . | 0.02%                   | 0.01%     | —%        | 0.01%     | 0.02%     |
| Net investment income . . . . .                                      | 2.00%                   | 1.42%     | 1.99%     | 2.22%     | 1.65%     |
| <b>Supplemental data</b>   |                         |           |           |           |           |
| Net assets, end of year (000's) . . . . .                            | \$120,345               | \$105,047 | \$122,942 | \$122,476 | \$130,978 |
| Portfolio turnover rate . . . . .                                    | 38.50%                  | 24.67%    | 18.32%    | 24.45%    | 19.88%    |

<sup>a</sup>The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

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

<sup>c</sup>Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

<sup>d</sup>Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(e).

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

## Statement of Investments, December 31, 2019

## Franklin Mutual Shares VIP Fund

|  | Country        | Shares/<br>Rights/<br>Units/<br>Warrants | Value              |
|--|----------------|--|--------------------|
| <b>Common Stocks and Other Equity Interests 90.4%</b>                          |                |  |                    |
| <b>Aerospace &amp; Defense 2.2%</b>  |                |  |                    |
| BAE Systems PLC . . . . .  | United Kingdom | 4,356,429                                | \$ 32,588,239      |
| Huntington Ingalls Industries Inc. . . . .                                     | United States  | 152,745                                  | 38,320,665         |
|  |                |  | <u>70,908,904</u>  |
| <b>Auto Components 0.0%†</b>   |                |  |                    |
| <sup>a,b,c</sup> International Automotive Components Group Brazil LLC. . . . . | Brazil         | 1,730,515                                | 62,818             |
| <b>Automobiles 1.2%</b>  |                |  |                    |
| General Motors Co. . . . .   | United States  | 1,031,445                                | 37,750,887         |
| <b>Banks 9.7%</b>  |                |  |                    |
| Cadence Bancorp . . . . .  | United States  | 423,846                                  | 7,684,328          |
| CIT Group Inc. . . . .   | United States  | 600,346                                  | 27,393,788         |
| Citigroup Inc. . . . .   | United States  | 870,481                                  | 69,542,727         |
| Citizens Financial Group Inc. . . . .  | United States  | 1,204,366                                | 48,909,303         |
| JPMorgan Chase & Co. . . . .   | United States  | 517,782                                  | 72,178,811         |
| Synovus Financial Corp. . . . .  | United States  | 498,092                                  | 19,525,207         |
| Wells Fargo & Co. . . . .  | United States  | 1,234,125                                | 66,395,925         |
|  |                |  | <u>311,630,089</u> |
| <b>Building Products 1.1%</b>  |                |  |                    |
| Johnson Controls International PLC . . . . .                                   | United States  | 869,230                                  | 35,386,353         |
| <b>Communications Equipment 0.8%</b>   |                |  |                    |
| Cisco Systems Inc. . . . .   | United States  | 551,664                                  | 26,457,805         |
| <b>Consumer Finance 1.5%</b>   |                |  |                    |
| Capital One Financial Corp. . . . .  | United States  | 476,337                                  | 49,019,841         |
| <b>Containers &amp; Packaging 1.7%</b>   |                |  |                    |
| International Paper Co. . . . .  | United States  | 901,475                                  | 41,512,924         |
| WestRock Co. . . . .   | United States  | 268,071                                  | 11,502,926         |
|  |                |  | <u>53,015,850</u>  |
| <b>Diversified Financial Services 1.4%</b>                                     |                |  |                    |
| Voya Financial Inc. . . . .  | United States  | 758,210                                  | 46,235,646         |
| <b>Diversified Telecommunication Services 0.6%</b>                             |                |  |                    |
| Koninklijke KPN NV . . . . .   | Netherlands    | 7,044,218                                | 20,784,212         |
| <b>Electrical Equipment 1.8%</b>   |                |  |                    |
| <sup>a</sup> Sensata Technologies Holding PLC . . . . .                        | United States  | 1,052,926                                | 56,721,124         |
| <b>Electronic Equipment, Instruments &amp; Components 1.0%</b>                 |                |  |                    |
| Corning Inc. . . . .   | United States  | 1,131,869                                | 32,948,707         |
| <b>Energy Equipment &amp; Services 1.6%</b>                                    |                |  |                    |
| Baker Hughes Co., A . . . . .  | United States  | 663,295                                  | 17,000,251         |
| Schlumberger Ltd. . . . .  | United States  | 893,500                                  | 35,918,700         |
|  |                |  | <u>52,918,951</u>  |
| <b>Entertainment 2.2%</b>  |                |  |                    |
| The Walt Disney Co. . . . .  | United States  | 482,642                                  | 69,804,512         |

**Franklin Mutual Shares VIP Fund** (continued)

|   | Country        | Shares/<br>Rights/<br>Units/<br>Warrants | Value              |
|---|----------------|--|--------------------|
| <b>Common Stocks and Other Equity Interests</b> (continued)         |                |  |                    |
| <b>Equity Real Estate Investment Trusts (REITs) 1.4%</b>            |                |  |                    |
| Alexander's Inc. . . . .  | United States  | 31,168                                   | \$ 10,296,349      |
| Vornado Realty Trust . . . . .                                      | United States  | 496,915                                  | 33,044,847         |
|   |                |  | <u>43,341,196</u>  |
| <b>Food &amp; Staples Retailing 2.7%</b>                            |                |  |                    |
| The Kroger Co. . . . .  | United States  | 1,747,360                                | 50,655,966         |
| Walgreens Boots Alliance Inc. . . . .                               | United States  | 595,730                                  | 35,124,241         |
|   |                |  | <u>85,780,207</u>  |
| <b>Food Products 3.0%</b>   |                |  |                    |
| Archer-Daniels-Midland Co. . . . .                                  | United States  | 657,200                                  | 30,461,220         |
| Conagra Brands Inc. . . . .   | United States  | 382,465                                  | 13,095,602         |
| The Kraft Heinz Co. . . . .   | United States  | 1,686,635                                | 54,191,582         |
|   |                |  | <u>97,748,404</u>  |
| <b>Health Care Equipment &amp; Supplies 3.1%</b>                    |                |  |                    |
| Medtronic PLC . . . . .   | United States  | 871,507                                  | 98,872,469         |
| <b>Health Care Providers &amp; Services 1.7%</b>                    |                |  |                    |
| CVS Health Corp. . . . .  | United States  | 731,362                                  | 54,332,883         |
| <b>Household Durables 3.0%</b>                                      |                |  |                    |
| Lennar Corp., A. . . . .  | United States  | 570,094                                  | 31,805,544         |
| Newell Brands Inc. . . . .  | United States  | 2,394,574                                | 46,023,713         |
| Toll Brothers Inc. . . . .  | United States  | 460,200                                  | 18,182,502         |
|   |                |  | <u>96,011,759</u>  |
| <b>Household Products 0.7%</b>                                      |                |  |                    |
| Energizer Holdings Inc. . . . .                                     | United States  | 428,700                                  | 21,529,314         |
| <b>Independent Power &amp; Renewable Electricity Producers 0.1%</b> |                |  |                    |
| Vistra Energy Corp. . . . .   | United States  | 170,478                                  | 3,919,289          |
| <b>Industrial Conglomerates 1.1%</b>                                |                |  |                    |
| General Electric Co. . . . .  | United States  | 3,184,898                                | 35,543,462         |
| <b>Insurance 8.2%</b>   |                |  |                    |
| <sup>a</sup> Alleghany Corp. . . . .                                | United States  | 91,903                                   | 73,482,882         |
| American International Group Inc. . . . .                           | United States  | 1,371,086                                | 70,377,845         |
| Chubb Ltd. . . . .  | United States  | 46,099                                   | 7,175,770          |
| Everest Re Group Ltd. . . . .                                       | United States  | 116,329                                  | 32,204,520         |
| The Hartford Financial Services Group Inc. . . . .                  | United States  | 904,974                                  | 54,995,270         |
| MetLife Inc. . . . .  | United States  | 506,303                                  | 25,806,264         |
|   |                |  | <u>264,042,551</u> |
| <b>IT Services 1.6%</b>   |                |  |                    |
| Cognizant Technology Solutions Corp., A. . . . .                    | United States  | 804,421                                  | 49,890,190         |
| <b>Machinery 0.8%</b>   |                |  |                    |
| CNH Industrial NV . . . . .   | United Kingdom | 605,230                                  | 6,644,817          |
| CNH Industrial NV, special voting. . . . .                          | United Kingdom | 1,844,814                                | 20,254,205         |
|   |                |  | <u>26,899,022</u>  |



Franklin Mutual Shares VIP Fund (continued)

|  | Country        | Shares/<br>Rights/<br>Units/<br>Warrants | Value         |
|--|----------------|--|---------------|
| <b>Common Stocks and Other Equity Interests (continued)</b>    |                |  |               |
| <b>Media 6.3%</b>  |                |  |               |
| <sup>a</sup> Charter Communications Inc., A . . . . .          | United States  | 153,748                                  | \$ 74,580,080 |
| Comcast Corp., A . . . . .                                     | United States  | 1,246,110                                | 56,037,567    |
| <sup>a</sup> Discovery Inc., C . . . . .                       | United States  | 1,152,073                                | 35,126,706    |
| <sup>a</sup> DISH Network Corp., A . . . . .                   | United States  | 696,483                                  | 24,704,252    |
| <sup>a</sup> iHeartMedia Inc., A . . . . .                     | United States  | 717,645                                  | 12,128,200    |
| <sup>a,b</sup> iHeartMedia Inc., B . . . . .                   | United States  | 12,783                                   | 183,628       |
|  |                |  | 202,760,433   |
| <b>Oil, Gas &amp; Consumable Fuels 7.7%</b>                    |                |  |               |
| BP PLC . . . . .   | United Kingdom | 7,231,237                                | 45,167,074    |
| Kinder Morgan Inc. . . . .                                     | United States  | 2,748,517                                | 58,186,105    |
| Marathon Oil Corp. . . . .                                     | United States  | 2,662,301                                | 36,154,048    |
| Occidental Petroleum Corp. . . . .                             | United States  | 508,819                                  | 20,968,431    |
| Plains All American Pipeline LP . . . . .                      | United States  | 930,400                                  | 17,110,056    |
| Royal Dutch Shell PLC, A (EUR Traded) . . . . .                | United Kingdom | 409,528                                  | 12,016,673    |
| Royal Dutch Shell PLC, A (GBP Traded) . . . . .                | United Kingdom | 696,358                                  | 20,613,211    |
| The Williams Cos. Inc. . . . .                                 | United States  | 1,534,284                                | 36,393,216    |
|  |                |  | 246,608,814   |
| <b>Pharmaceuticals 9.9%</b>                                    |                |  |               |
| Allergan PLC . . . . .   | United States  | 187,800                                  | 35,901,726    |
| <sup>a</sup> Bristol-Myers Squibb Co., rts., 2/01/49 . . . . . | United States  | 401,188                                  | 1,207,576     |
| Eli Lilly & Co. . . . .  | United States  | 500,301                                  | 65,754,561    |
| GlaxoSmithKline PLC . . . . .                                  | United Kingdom | 3,070,511                                | 72,347,273    |
| Merck & Co. Inc. . . . .                                       | United States  | 456,132                                  | 41,485,205    |
| Novartis AG, ADR . . . . .                                     | Switzerland    | 808,869                                  | 76,591,806    |
| Perrigo Co. PLC . . . . .                                      | United States  | 446,400                                  | 23,061,024    |
|  |                |  | 316,349,171   |
| <b>Software 3.1%</b>   |                |  |               |
| <sup>a</sup> Avaya Holdings Corp. . . . .                      | United States  | 116                                      | 1,566         |
| <sup>a</sup> Avaya Holdings Corp., wts., 12/15/22 . . . . .    | United States  | 91,551                                   | 109,861       |
| NortonLifeLock Inc. . . . .                                    | United States  | 2,284,561                                | 58,301,997    |
| Oracle Corp. . . . .   | United States  | 756,881                                  | 40,099,555    |
|  |                |  | 98,512,979    |
| <b>Specialty Retail 0.2%</b>                                   |                |  |               |
| <sup>a,b</sup> TRU Kids Parent LLC . . . . .                   | United States  | 2,040                                    | 7,609,922     |
| <sup>a,b</sup> Wayne Services Legacy Inc. . . . .              | United States  | 2,039                                    | —             |
|  |                |  | 7,609,922     |
| <b>Technology Hardware, Storage &amp; Peripherals 4.3%</b>     |                |  |               |
| Hewlett Packard Enterprise Co. . . . .                         | United States  | 2,038,215                                | 32,326,090    |
| Samsung Electronics Co. Ltd. . . . .                           | South Korea    | 1,327,497                                | 64,078,697    |
| Western Digital Corp. . . . .                                  | United States  | 644,800                                  | 40,925,456    |
|  |                |  | 137,330,243   |

**Franklin Mutual Shares VIP Fund** (continued)

|   | Country        | Shares/<br>Rights/<br>Units/<br>Warrants | Value                |
|---|----------------|--|----------------------|
| <b>Common Stocks and Other Equity Interests</b> (continued)   |                |  |                      |
| <b>Textiles, Apparel &amp; Luxury Goods 1.2%</b>  |                |  |                      |
| PVH Corp. . . . .   | United States  | 364,405                                  | \$ 38,317,186        |
| <b>Tobacco 3.1%</b>   |                |  |                      |
| Altria Group Inc. . . . .   | United States  | 570,425                                  | 28,469,912           |
| British American Tobacco PLC . . . . .  | United Kingdom | 1,052,864                                | 45,062,159           |
| British American Tobacco PLC, ADR . . . . .   | United Kingdom | 372,933                                  | 15,834,735           |
| Imperial Brands PLC . . . . .   | United Kingdom | 393,858                                  | 9,749,549            |
|   |                |  | <u>99,116,355</u>    |
| <b>Wireless Telecommunication Services 0.4%</b>   |                |  |                      |
| Vodafone Group PLC . . . . .  | United Kingdom | 7,301,663                                | 14,192,701           |
| <b>Total Common Stocks and Other Equity Interests<br/>(Cost \$2,059,518,038)</b> . . . . .                            |                |  | <u>2,902,354,249</u> |
|   |                | <b>Principal<br/>Amount</b>              |                      |
| <b>Corporate Notes and Senior Floating Rate Interests 3.8%</b>  |                |  |                      |
| <sup>d</sup> Banff Merger Sub Inc., senior note, 144A, 9.75%, 9/01/26 . . . . .                                       | United States  | \$ 18,444,000                            | 18,721,121           |
| Frontier Communications Corp.,<br>senior note, 10.50%, 9/15/22 . . . . .  | United States  | 22,633,000                               | 11,097,232           |
| senior note, 11.00%, 9/15/25 . . . . .  | United States  | 25,535,000                               | 12,448,313           |
| <sup>d</sup> senior secured note, first lien, 144A, 8.00%, 4/01/27 . . . . .  | United States  | 6,148,000                                | 6,436,034            |
| <sup>e</sup> Veritas U.S. Inc.,<br>Term Loan B1, 6.299%, (1-month USD LIBOR + 4.50%), 1/27/23 . . . . .               | United States  | 14,532,614                               | 14,048,198           |
| Term Loan B1, 6.445%, (3-month USD LIBOR + 4.50%), 1/27/23 . . . . .  | United States  | 2,791,821                                | 2,698,761            |
| <sup>d</sup> Veritas U.S. Inc./Veritas Bermuda Ltd.,<br>senior note, 144A, 7.50%, 2/01/23 . . . . .                   | United States  | 2,856,000                                | 2,857,185            |
| senior note, 144A, 10.50%, 2/01/24 . . . . .  | United States  | 23,445,000                               | 21,754,967           |
| <sup>e</sup> Windstream Services LLC,<br><sup>f</sup> Revolving Commitment, 7.75%, (Prime + 3.00%), 4/24/20 . . . . . | United States  | 26,279,371                               | 24,636,911           |
| Term Loan B6, 9.75%, (Prime + 5.00%), 3/30/21 . . . . .   | United States  | 6,671,000                                | 6,400,584            |
| <b>Total Corporate Notes and Senior Floating Rate Interests<br/>(Cost \$141,734,288)</b> . . . . .                    |                |  | <u>121,099,306</u>   |
| <b>Corporate Notes in Reorganization (Cost \$9,381,238) 0.0%<sup>†</sup></b>  |                |  |                      |
| <sup>d,g</sup> McDermott Technology Americas Inc., senior note, 144A, 10.625%, 5/01/24 . . . . .                      | United States  | 9,797,000                                | 860,274              |
|   |                | <b>Shares</b>                            |                      |
| <b>Companies in Liquidation 0.0%<sup>†</sup></b>  |                |  |                      |
| <sup>a,b,h</sup> Clear Channel Communications Inc., Contingent Distribution . . . . .                                 | United States  | 26,449,000                               | —                    |
| <sup>a,b,h,i</sup> HeartCommunications Inc., Contingent Distribution . . . . .  | United States  | 45,914,872                               | —                    |
| <sup>a,b,h</sup> Tribune Media, Litigation Trust, Contingent Distribution . . . . .                                   | United States  | 395,935                                  | —                    |
| <sup>a,b,h</sup> Vistra Energy Corp., Litigation Trust, Contingent Distribution . . . . .                             | United States  | 90,618,405                               | 49,840               |

Franklin Mutual Shares VIP Fund (continued)

|   | Country       | Shares                      | Value           |
|---|---------------|-----------------------------|-----------------|
| <b>Companies in Liquidation</b> (continued)   |               |                             |                 |
| <sup>a,b,h</sup> Walter Energy Inc., Litigation Trust, Contingent Distribution . . . . .    | United States | 6,301,000                   | \$ —            |
| <b>Total Companies in Liquidation (Cost \$2,834,274)</b> . . . . .                          |               |                             | 49,840          |
| <b>Total Investments before Short Term Investments<br/>(Cost \$2,213,467,838)</b> . . . . . |               |                             | 3,024,363,669   |
|   |               | <b>Principal<br/>Amount</b> |                 |
| <b>Short Term Investments 5.9%</b>  |               |                             |                 |
| <b>U.S. Government and Agency Securities 5.9%</b>   |               |                             |                 |
| <sup>i</sup> FHLB, 1/02/20 . . . . .  | United States | \$ 48,900,000               | 48,900,000      |
| <sup>i</sup> U.S. Treasury Bill,<br><sup>j</sup> 3/05/20 - 3/19/20 . . . . .                | United States | 35,500,000                  | 35,398,533      |
| 1/02/20 - 6/25/20 . . . . .   | United States | 105,000,000                 | 104,631,101     |
| <b>Total U.S. Government and Agency Securities<br/>(Cost \$188,860,811)</b> . . . . .       |               |                             | 188,929,634     |
| <b>Total Investments (Cost \$2,402,328,649) 100.1%</b> . . . . .                            |               |                             | 3,213,293,303   |
| <b>Securities Sold Short (0.4)%</b> . . . . .   |               |                             | (14,400,942)    |
| <b>Other Assets, less Liabilities 0.3%</b> . . . . .  |               |                             | 11,637,020      |
| <b>Net Assets 100.0%</b> . . . . .  |               |                             | \$3,210,529,381 |
|   |               | <b>Shares</b>               |                 |
| <sup>k</sup> <b>Securities Sold Short (Proceeds \$12,428,238) (0.4)%</b>                    |               |                             |                 |
| <b>Common Stocks (0.4)%</b>   |               |                             |                 |
| <b>Biotechnology (0.4)%</b>   |               |                             |                 |
| AbbVie Inc. . . . .   | United States | 162,649                     | (14,400,942)    |

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>a</sup>Non-income producing.

<sup>b</sup>Fair valued using significant unobservable inputs. See Note 11 regarding fair value measurements.

<sup>c</sup>See Note 8 regarding restricted securities.

<sup>d</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. At December 31, 2019, the aggregate value of these securities was \$50,629,581, representing 1.6% of net assets.

<sup>e</sup>See Note 1(g) regarding senior floating rate interests.

<sup>f</sup>A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

<sup>g</sup>See Note 7 regarding credit risk and defaulted securities.

<sup>h</sup>Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.

<sup>i</sup>The security was issued on a discount basis with no stated coupon rate.

<sup>j</sup>A portion or all of the security has been segregated as collateral for securities sold short and open forward exchange contracts. At December 31, 2019, the aggregate value of these securities pledged amounted to \$9,086,774, representing 0.3% of net assets.

<sup>k</sup>See Note 1(e) regarding securities sold short.

**Franklin Mutual Shares VIP Fund** (continued)

At December 31, 2019, the Fund had the following futures contracts outstanding. See Note 1(d).

**Futures Contracts**

| Description                   | Type  | Number of Contracts | Notional Amount* | Expiration Date | Value/Unrealized Appreciation (Depreciation) |
|-------------------------------|-------|---------------------|------------------|-----------------|--|
| <b>Currency Contracts</b>     |       |                     |                  |                 |  |
| EUR/USD .....                 | Short | 211                 | \$29,756,275     | 3/16/20         | \$(285,724)                                  |
| GBP/USD .....                 | Short | 675                 | 56,075,625       | 3/16/20         | (434,543)                                    |
| Total Futures Contracts ..... |       |                     |                  |                 | <u>\$(720,267)</u>                           |

\*As of period end.

At December 31, 2019, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

**Forward Exchange Contracts**

| Currency   | Counterparty <sup>a</sup> | Type | Quantity       | Contract Amount | Settlement Date | Unrealized Appreciation | Unrealized Depreciation |
|--|---------------------------|------|----------------|-----------------|-----------------|-------------------------|-------------------------|
| <b>OTC Forward Exchange Contracts</b>            |                           |      |                |                 |                 |                         |                         |
| Euro .....                                       | BOFA                      | Buy  | 2,357,999      | \$ 2,634,337    | 1/15/20         | \$ 12,587               | \$ —                    |
| Euro .....                                       | BOFA                      | Sell | 23,751,736     | 26,419,769      | 1/15/20         | —                       | (242,255)               |
| Euro .....                                       | HSBK                      | Buy  | 265,000        | 297,743         | 1/15/20         | —                       | (273)                   |
| Euro .....                                       | HSBK                      | Buy  | 2,309,661      | 2,567,345       | 1/15/20         | 25,317                  | —                       |
| British Pound .....                              | BOFA                      | Buy  | 2,654,040      | 3,440,886       | 1/16/20         | 75,929                  | —                       |
| British Pound .....                              | BOFA                      | Sell | 1,148,314      | 1,502,132       | 1/16/20         | —                       | (19,476)                |
| British Pound .....                              | HSBK                      | Sell | 23,503,287     | 30,378,116      | 1/16/20         | —                       | (765,611)               |
| South Korean Won .....                           | HSBK                      | Sell | 45,586,583,448 | 38,567,286      | 1/17/20         | —                       | (881,159)               |
| South Korean Won .....                           | UBSW                      | Sell | 28,177,114,854 | 23,792,210      | 1/17/20         | —                       | (590,915)               |
| Total Forward Exchange Contracts .....           |                           |      |                |                 |                 | <u>\$ 113,833</u>       | <u>\$ (2,499,689)</u>   |
| Net unrealized appreciation (depreciation) ..... |                           |      |                |                 |                 |                         | <u>\$ (2,385,856)</u>   |

<sup>a</sup>May be comprised of multiple contracts with the same counterparty, currency and settlement date.

See Note 9 regarding other derivative information.

See Abbreviations on page MS-31.

## Statement of Assets and Liabilities

December 31, 2019

|   | <b>Franklin Mutual<br/>Shares VIP Fund</b> |
|---|--|
| <b>Assets:</b>  |  |
| Investments in securities:  |  |
| Cost - Unaffiliated issuers . . . . .                               | \$2,402,328,649                            |
| Value - Unaffiliated issuers . . . . .                              | \$3,213,293,303                            |
| Cash . . . . .  | 377,832                                    |
| Foreign currency, at value (cost \$389,179) . . . . .               | 396,623                                    |
| Receivables:  |  |
| Investment securities sold . . . . .                                | 4,917,521                                  |
| Capital shares sold . . . . .                                       | 76,963                                     |
| Dividends and interest . . . . .                                    | 10,432,193                                 |
| European Union tax reclaims . . . . .                               | 1,795,174                                  |
| Deposits with brokers for:  |  |
| Securities sold short . . . . .                                     | 14,698,388                                 |
| Futures contracts . . . . .   | 2,116,140                                  |
| Unrealized appreciation on OTC forward exchange contracts . . . . . | 113,833                                    |
| Other assets . . . . .  | 847,490                                    |
| <b>Total assets . . . . .</b>                                       | <b>3,249,065,460</b>                       |
| <b>Liabilities:</b>   |  |
| Payables:   |  |
| Investment securities purchased . . . . .                           | 16,568,985                                 |
| Capital shares redeemed . . . . .                                   | 1,332,326                                  |
| Management fees . . . . .   | 1,823,724                                  |
| Distribution fees . . . . .   | 652,012                                    |
| Variation margin on futures contracts . . . . .                     | 695,853                                    |
| Securities sold short, at value (proceeds \$12,428,238) . . . . .   | 14,400,942                                 |
| Unrealized depreciation on OTC forward exchange contracts . . . . . | 2,499,689                                  |
| Accrued expenses and other liabilities . . . . .                    | 562,548                                    |
| <b>Total liabilities . . . . .</b>                                  | <b>38,536,079</b>                          |
| <b>Net assets, at value . . . . .</b>                               | <b>\$3,210,529,381</b>                     |
| Net assets consist of:  |  |
| Paid-in capital . . . . .   | \$2,261,034,664                            |
| Total distributable earnings (losses) . . . . .                     | 949,494,717                                |
| <b>Net assets, at value . . . . .</b>                               | <b>\$3,210,529,381</b>                     |
| <b>Class 1:</b>   |  |
| Net assets, at value . . . . .                                      | \$ 158,431,333                             |
| Shares outstanding . . . . .  | 8,256,970                                  |
| Net asset value and maximum offering price per share . . . . .      | \$19.19                                    |
| <b>Class 2:</b>   |  |
| Net assets, at value . . . . .                                      | \$2,931,752,809                            |
| Shares outstanding . . . . .  | 155,882,081                                |
| Net asset value and maximum offering price per share . . . . .      | \$18.81                                    |
| <b>Class 4:</b>   |  |
| Net assets, at value . . . . .                                      | \$ 120,345,239                             |
| Shares outstanding . . . . .  | 6,337,390                                  |
| Net asset value and maximum offering price per share . . . . .      | \$18.99                                    |

## Statement of Operations

for the year ended December 31, 2019

|  | <b>Franklin Mutual<br/>Shares VIP Fund</b> |
|--|--|
| Investment income:   |  |
| Dividends: (net of foreign taxes)*   |  |
| Unaffiliated issuers . . . . .   | \$ 79,438,336                              |
| Interest:  |  |
| Unaffiliated issuers . . . . .   | 21,341,565                                 |
| Income from securities loaned:   |  |
| Unaffiliated issuers (net of fees and rebates) . . . . .                                   | 253,088                                    |
| Non-controlled affiliates (Note 3e) . . . . .  | 47,926                                     |
| Other income (Note 1h) . . . . .   | 223,118                                    |
| Total investment income . . . . .  | <u>101,304,033</u>                         |
| Expenses:  |  |
| Management fees (Note 3a) . . . . .  | 22,367,019                                 |
| Distribution fees: (Note 3c)   |  |
| Class 2 . . . . .  | 7,049,418                                  |
| Class 4 . . . . .  | 402,943                                    |
| Custodian fees (Note 4) . . . . .  | 85,083                                     |
| Reports to shareholders . . . . .  | 485,988                                    |
| Professional fees <sup>a</sup> . . . . .   | (194,465)                                  |
| Trustees' fees and expenses . . . . .  | 19,788                                     |
| Dividends and interest on securities sold short . . . . .                                  | 569,637                                    |
| Other . . . . .  | 61,769                                     |
| Total expenses . . . . .   | 30,847,180                                 |
| Expense reductions (Note 4) . . . . .  | (17,169)                                   |
| Expenses waived/paid by affiliates (Note 3e) . . . . .                                     | (8,871)                                    |
| Net expenses . . . . .   | <u>30,821,140</u>                          |
| Net investment income . . . . .  | <u>70,482,893</u>                          |
| Realized and unrealized gains (losses):  |  |
| Net realized gain (loss) from:   |  |
| Investments:   |  |
| Unaffiliated issuers . . . . .   | 95,233,800                                 |
| Realized gain distributions from REITs . . . . .   | 141,370                                    |
| Foreign currency transactions . . . . .  | 495,056                                    |
| Forward exchange contracts . . . . .   | 5,238,183                                  |
| Futures contracts . . . . .  | 1,329,818                                  |
| Securities sold short . . . . .  | (6,921,402)                                |
| Net realized gain (loss) . . . . .   | <u>95,516,825</u>                          |
| Net change in unrealized appreciation (depreciation) on:                                   |  |
| Investments:   |  |
| Unaffiliated issuers . . . . .   | 508,856,878                                |
| Translation of other assets and liabilities<br>denominated in foreign currencies . . . . . | (20,880)                                   |
| Forward exchange contracts . . . . .   | (1,434,738)                                |
| Futures contracts . . . . .  | (884,259)                                  |
| Securities sold short . . . . .  | (8,907,834)                                |
| Net change in unrealized appreciation (depreciation) . . . . .                             | <u>497,609,167</u>                         |
| Net realized and unrealized gain (loss) . . . . .  | <u>593,125,992</u>                         |
| Net increase (decrease) in net assets resulting from operations . . . . .                  | <u>\$663,608,885</u>                       |

**Statement of Operations** (continued)  
for the year ended December 31, 2019

\*Foreign taxes withheld on dividends . . . . . \$ 1,359,043

<sup>a</sup>Includes unaffiliated reimbursement of legal fees incurred in connection with certain fund holdings.

## Statements of Changes in Net Assets

|   | <b>Franklin Mutual Shares VIP Fund</b> |                  |
|---|--|------------------|
|   | <b>Year Ended December 31,</b>         |                  |
|   | <b>2019</b>                            | <b>2018</b>      |
| Increase (decrease) in net assets:  |  |                  |
| Operations:   |  |                  |
| Net investment income . . . . .   | \$ 70,482,893                          | \$ 60,982,102    |
| Net realized gain (loss) . . . . .  | 95,516,825                             | 308,792,402      |
| Net change in unrealized appreciation (depreciation) . . . . .            | 497,609,167                            | (689,920,400)    |
| Net increase (decrease) in net assets resulting from operations . . . . . | 663,608,885                            | (320,145,896)    |
| Distributions to shareholders:  |  |                  |
| Class 1 . . . . .   | (35,828,591)                           | (37,929,843)     |
| Class 2 . . . . .   | (330,340,832)                          | (194,310,469)    |
| Class 4 . . . . .   | (13,089,406)                           | (7,177,027)      |
| Total distributions to shareholders . . . . .                             | (379,258,829)                          | (239,417,339)    |
| Capital share transactions: (Note 2)                                      |  |                  |
| Class 1 . . . . .   | (436,530,771)                          | (27,996,947)     |
| Class 2 . . . . .   | 198,182,849                            | (506,425,142)    |
| Class 4 . . . . .   | 5,322,730                              | (365,846)        |
| Total capital share transactions . . . . .                                | (233,025,192)                          | (534,787,935)    |
| Net increase (decrease) in net assets . . . . .                           | 51,324,864                             | (1,094,351,170)  |
| Net assets:   |  |                  |
| Beginning of year . . . . .   | 3,159,204,517                          | 4,253,555,687    |
| End of year . . . . .   | \$3,210,529,381                        | \$ 3,159,204,517 |



# Notes to Financial Statements

## Franklin Mutual Shares VIP Fund

### 1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of eighteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Mutual Shares VIP Fund (Fund) is included in this report. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers three classes of shares: Class 1, Class 2 and Class 4. Each class of shares may differ by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple

exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

Investments in open-end mutual funds are valued at the closing NAV.

Certain derivative financial instruments trade in the OTC market. The Fund's pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund's net benefit or obligation under the derivative contract, as measured by the fair value of the contract, is included in net assets.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

## Franklin Mutual Shares VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### a. Financial Instrument Valuation (continued)

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

#### b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in

foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

#### c. Securities Purchased on a Delayed Delivery Basis

The Fund purchases securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

#### d. Derivative Financial Instruments

The Fund invested in derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to

**Franklin Mutual Shares VIP Fund** (continued)

gains or losses in excess of the amounts shown in the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At December 31, 2019, the Fund had OTC derivatives in a net liability position of \$2,385,856 and the aggregate value of collateral pledged for such contracts was \$1,727,954.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from \$100,000 to \$250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the

counterparty the next business day, or within a few business days. Collateral pledged and/or received by the Fund for OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into exchange traded futures contracts primarily to manage exposure to certain foreign currencies. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset at a specified price on a future date. Required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities.

The Fund entered into OTC forward exchange contracts primarily to manage exposure to certain foreign currencies. A forward exchange contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

See Note 9 regarding other derivative information.

**e. Securities Sold Short**

The Fund is engaged in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current fair value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the Fund sold the security short, while losses are potentially unlimited in size.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale to the extent necessary to meet margin requirements until the short position is closed out. A deposit must also be maintained with the Fund's custodian/counterparty broker consisting of cash and/or securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay fees for borrowing the securities sold short and is required to pay the counterparty any

## Franklin Mutual Shares VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### e. Securities Sold Short (continued)

dividends and/or interest due on securities sold short. Such dividends and/or interest and any security borrowing fees are recorded as an expense to the Fund.

#### f. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2019, the Fund had no securities on loan.

#### g. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable,

but may be subject to certain restrictions on resale. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced its intention to cease sustaining LIBOR after 2021. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Fund or the Fund's investments that use or may use a floating rate based on LIBOR cannot yet be determined.

#### h. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, when EU reclaims are received by the Fund and the Fund previously passed foreign tax credit on to its shareholders, the Fund must either amend historic tax reporting to shareholders or enter into a

**Franklin Mutual Shares VIP Fund** (continued)

closing agreement with the Internal Revenue Service (IRS) in order to pay the associated tax liability on behalf of the Fund's shareholders.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2019, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

**i. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income and dividends declared on securities sold short are recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust or based on the ratio of number of shareholders of each Fund to the combined number of shareholders of the Trust. Fund specific expenses are charged directly to the Fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, excluding class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions by class are generally due to differences in class specific expenses.

**j. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**k. Guarantees and Indemnifications**

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

**Franklin Mutual Shares VIP Fund** (continued)

**2. Shares of Beneficial Interest**

At December 31, 2019, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

|  | Year Ended December 31, |                 |              |                  |
|--|-------------------------|-----------------|--------------|------------------|
|  | 2019                    |                 | 2018         |                  |
|  | Shares                  | Amount          | Shares       | Amount           |
| <b>Class 1 Shares:</b>                                   |                         |                 |              |                  |
| Shares sold . . . . .                                    | 765,653                 | \$ 14,772,259   | 1,228,202    | \$ 23,646,682    |
| Shares issued in reinvestment of distributions . . . . . | 2,031,099               | 35,828,591      | 1,881,441    | 37,929,843       |
| Shares redeemed . . . . .                                | (24,880,289)            | (487,131,621)   | (4,336,171)  | (89,573,472)     |
| Net increase (decrease) . . . . .                        | (22,083,537)            | \$(436,530,771) | (1,226,528)  | \$ (27,996,947)  |
| <b>Class 2 Shares:</b>                                   |                         |                 |              |                  |
| Shares sold . . . . .                                    | 29,854,091              | \$ 583,466,693  | 14,955,793   | \$ 302,887,079   |
| Shares issued in reinvestment of distributions . . . . . | 19,094,846              | 330,340,832     | 9,803,757    | 194,310,469      |
| Shares redeemed . . . . .                                | (37,705,675)            | (715,624,676)   | (50,860,562) | (1,003,622,690)  |
| Net increase (decrease) . . . . .                        | 11,243,262              | \$ 198,182,849  | (26,101,012) | \$ (506,425,142) |
| <b>Class 4 Shares:</b>                                   |                         |                 |              |                  |
| Shares sold . . . . .                                    | 625,179                 | \$ 11,842,479   | 743,333      | \$ 14,855,135    |
| Shares issued in reinvestment of distributions . . . . . | 749,250                 | 13,089,406      | 358,852      | 7,177,027        |
| Shares redeemed . . . . .                                | (1,022,438)             | (19,609,155)    | (1,104,232)  | (22,398,008)     |
| Net increase (decrease) . . . . .                        | 351,991                 | \$ 5,322,730    | (2,047)      | \$ (365,846)     |

**3. Transactions with Affiliates**

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

| Subsidiary  | Affiliation            |
|---|------------------------|
| Franklin Mutual Advisers, LLC (Franklin Mutual)               | Investment manager     |
| Franklin Templeton Services, LLC (FT Services)                | Administrative manager |
| Franklin Templeton Distributors, Inc. (Distributors)          | Principal underwriter  |
| Franklin Templeton Investor Services, LLC (Investor Services) | Transfer agent         |

**Franklin Mutual Shares VIP Fund** (continued)

**a. Management Fees**

The Fund pays an investment management fee to Franklin Mutual based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets  |
|---------------------|---|
| 0.675%              | Up to and including \$5 billion                     |
| 0.645%              | Over \$5 billion, up to and including \$10 billion  |
| 0.625%              | Over \$10 billion, up to and including \$15 billion |
| 0.595%              | Over \$15 billion, up to and including \$20 billion |
| 0.585%              | Over \$20 billion, up to and including \$25 billion |
| 0.565%              | Over \$25 billion, up to and including \$30 billion |
| 0.555%              | Over \$30 billion, up to and including \$35 billion |
| 0.545%              | In excess of \$35 billion                           |

**b. Administrative Fees**

Under an agreement with Franklin Mutual, FT Services provides administrative services to the Fund. The fee is paid by Franklin Mutual based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**c. Distribution Fees**

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.35% per year of its average daily net assets of each class. The Board has agreed to limit the current rate to 0.25% per year for Class 2. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

**d. Transfer Agent Fees**

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

**e. Investments in Affiliated Management Investment Companies**

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2019, the Fund held investments in affiliated management investment companies as follows:

|  | Value at<br>Beginning<br>of Year | Purchases     | Sales           | Realized<br>Gain (Loss) | Net Change in<br>Unrealized<br>Appreciation<br>(Depreciation) | Value at<br>End of<br>Year | Number of<br>Shares<br>Held at End<br>of Year | Income from<br>securities<br>loaned |
|--|----------------------------------|---------------|-----------------|-------------------------|---|----------------------------|---|-------------------------------------|
| <b>Non-Controlled Affiliates</b>   |                                  |               |                 |                         |   |                            |   |                                     |
| Institutional Fiduciary Trust Money Market<br>Portfolio, 1.26% . . . . . | \$ —                             | \$121,376,000 | \$(121,376,000) | \$ —                    | \$ —  | \$ —                       | —   | \$47,926                            |

**Franklin Mutual Shares VIP Fund** (continued)

**3. Transactions with Affiliates** (continued)

**f. Interfund Transactions**

The Fund engaged in purchases and sales of investments with funds or other accounts that have common investment managers (or affiliated investment managers), directors, trustees or officers. During the year ended December 31, 2019, these purchase and sale transactions aggregated \$0 and \$4,607,489, respectively.

**4. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2019, the custodian fees were reduced as noted in the Statement of Operations.

**5. Income Taxes**

The tax character of distributions paid during the years ended December 31, 2019 and 2018, was as follows:

|                                  | <u>2019</u>          | <u>2018</u>          |
|----------------------------------|----------------------|----------------------|
| Distributions paid from:         |                      |                      |
| Ordinary income . . . . .        | \$ 66,965,945        | \$ 94,583,983        |
| Long term capital gain . . . . . | 312,292,884          | 144,833,356          |
|                                  | <u>\$379,258,829</u> | <u>\$239,417,339</u> |

At December 31, 2019, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

|  |                        |
|--|------------------------|
| Cost of investments . . . . .                        | <u>\$2,418,505,668</u> |
| Unrealized appreciation . . . . .                    | \$ 895,224,355         |
| Unrealized depreciation . . . . .                    | (117,941,295)          |
| Net unrealized appreciation (depreciation) . . . . . | <u>\$ 777,283,060</u>  |
| Distributable earnings:                              |                        |
| Undistributed ordinary income . . . . .              | \$ 91,385,739          |
| Undistributed long term capital gains . . . . .      | <u>79,022,349</u>      |
| Total distributable earnings . . . . .               | <u>\$ 170,408,088</u>  |

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions and wash sales.

**6. Investment Transactions**

Purchases and sales of investments (excluding short term securities and securities sold short) for the year ended December 31, 2019, aggregated \$1,167,301,560 and \$1,477,326,286, respectively.



**Franklin Mutual Shares VIP Fund** (continued)

**7. Credit Risk and Defaulted Securities**

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and could be or are already involved in financial restructuring or bankruptcy. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. If it becomes probable that the income on debt securities, including those of distressed companies, will not be collected, the Fund discontinues accruing income and recognizes an adjustment for uncollectible interest.

At December 31, 2019, the aggregate long value of distressed company securities for which interest recognition has been discontinued represents less than 0.1% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

**8. Restricted Securities**

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act). Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At December 31, 2019, investments in restricted securities, excluding securities exempt from registration under the 1933 Act, were as follows:

| Shares    | Issuer   | Acquisition Date   | Cost        | Value    |
|-----------|--|--------------------|-------------|----------|
| 1,730,515 | International Automotive Components Group Brazil LLC, (Value is 0.0%† of Net Assets) | 4/13/06 - 12/26/08 | \$1,149,241 | \$62,818 |

†Rounds to less than 0.1% of net assets.

**9. Other Derivative Information**

At December 31, 2019, investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

| Derivative Contracts Not Accounted for as Hedging Instruments | Asset Derivatives   |                  | Liability Derivatives                                     |                         |
|---|---|------------------|---|-------------------------|
|   | Statement of Assets and Liabilities Location              | Fair Value       | Statement of Assets and Liabilities Location              | Fair Value              |
| Foreign exchange contracts . . . . .                          | Variation margin on futures contracts                     | \$ —             | Variation margin on futures contracts                     | \$ 720,267 <sup>a</sup> |
|   | Unrealized appreciation on OTC forward exchange contracts | 113,833          | Unrealized depreciation on OTC forward exchange contracts | 2,499,689               |
| Totals . . . . .  |   | <u>\$113,833</u> |   | <u>\$3,219,956</u>      |

<sup>a</sup>This amount reflects the cumulative appreciation (depreciation) of futures contracts as reported in the Statement of Investments. Only the variation margin receivable/payable at year end is separately reported within the Statement of Assets and Liabilities. Prior variation margin movements were recorded to cash upon receipt or payment.

**Franklin Mutual Shares VIP Fund** (continued)

**9. Other Derivative Information** (continued)

For the year ended December 31, 2019, the effect of derivative contracts in the Statement of Operations was as follows:

| Derivative Contracts<br>Not Accounted for as<br>Hedging Instruments | Statement of<br>Operations Location | Net Realized<br>Gain (Loss) for<br>the Year | Statement of<br>Operations Location                         | Net Change in<br>Unrealized<br>Appreciation<br>(Depreciation)<br>for the Year |
|---|-------------------------------------|---|---|---|
|   | Net realized gain (loss) from:      |   | Net change in unrealized<br>appreciation (depreciation) on: |   |
| Foreign exchange contracts . . .                                    | Forward exchange contracts          | \$5,238,183                                 | Forward exchange contracts                                  | \$(1,434,738)   |
|   | Futures contracts                   | 1,329,818                                   | Futures contracts   | (884,259)   |
| Totals . . . . .  |                                     | <u>\$6,568,001</u>                          |   | <u>\$(2,318,997)</u>  |

For the year ended December 31, 2019, the average month end notional amount of futures contracts represented \$96,195,661. The average month end contract value of forward exchange contracts was \$116,464,877.

See Note 1(d) regarding derivative financial instruments.

**10. Credit Facility**

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matured on February 7, 2020. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 7, 2020, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 5, 2021, for a total of \$2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2019, the Fund did not use the Global Credit Facility.

**11. Fair Value Measurements**

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

**Franklin Mutual Shares VIP Fund** (continued)

A summary of inputs used as of December 31, 2019, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

|  | Level 1          | Level 2        | Level 3                | Total            |
|--|------------------|----------------|------------------------|------------------|
| <b>Assets:</b>   |                  |                |                        |                  |
| Investments in Securities: <sup>a</sup>                      |                  |                |                        |                  |
| Equity Investments: <sup>b</sup>                             |                  |                |                        |                  |
| Auto Components . . . . .                                    | \$ —             | \$ —           | \$ 62,818              | \$ 62,818        |
| Machinery . . . . .  | 6,644,817        | 20,254,205     | —                      | 26,899,022       |
| Media . . . . .  | 202,576,805      | —              | 183,628                | 202,760,433      |
| Specialty Retail . . . . .                                   | —                | —              | 7,609,922 <sup>c</sup> | 7,609,922        |
| All Other Equity Investments . . . . .                       | 2,665,022,054    | —              | —                      | 2,665,022,054    |
| Corporate Notes and Senior Floating Rate Interests . . . . . |                  |                |                        |                  |
| Companies in Liquidation . . . . .                           | —                | —              | 49,840 <sup>c</sup>    | 49,840           |
| Short Term Investments . . . . .                             | 140,029,634      | 48,900,000     | —                      | 188,929,634      |
| Total Investments in Securities . . . . .                    | \$ 3,014,273,310 | \$ 191,113,785 | \$ 7,906,208           | \$ 3,213,293,303 |
| Other Financial Instruments:                                 |                  |                |                        |                  |
| Forward Exchange Contracts . . . . .                         | \$ —             | \$ 113,833     | \$ —                   | \$ 113,833       |
| <b>Liabilities:</b>  |                  |                |                        |                  |
| Other Financial Instruments:                                 |                  |                |                        |                  |
| Securities Sold Short . . . . .                              | \$ 14,400,942    | \$ —           | \$ —                   | \$ 14,400,942    |
| Futures Contracts . . . . .                                  | 720,267          | —              | —                      | 720,267          |
| Forward Exchange Contracts . . . . .                         | —                | 2,499,689      | —                      | 2,499,689        |
| Total Other Financial Instruments . . . . .                  | \$ 15,121,209    | \$ 2,499,689   | \$ —                   | \$ 17,620,898    |

<sup>a</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>b</sup>Includes common stocks as well as other equity interests.

<sup>c</sup>Includes securities determined to have no value at December 31, 2019.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the year.

**12. Subsequent Events**

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

**Abbreviations**

| Counterparty                      | Currency                        | Selected Portfolio                         |
|-----------------------------------|---------------------------------|--|
| <b>BOFA</b> Bank of America Corp. | <b>EUR</b> Euro                 | <b>ADR</b> American Depositary Receipt     |
| <b>HSBK</b> HSBC Bank PLC         | <b>GBP</b> British Pound        | <b>FHLB</b> Federal Home Loan Bank         |
| <b>UBSW</b> UBS AG                | <b>USD</b> United States Dollar | <b>LIBOR</b> London InterBank Offered Rate |

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Templeton Variable Insurance Products Trust and Shareholders of Franklin Mutual Shares VIP Fund

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Mutual Shares VIP Fund (the "Fund") as of December 31, 2019, the related statement of operations for the year ended December 31, 2019, the statement of changes in net assets for each of the two years in the period ended December 31, 2019, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2019 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2019, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2019 and the financial highlights for each of the five years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2019 by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California  
February 20, 2020

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

## Tax Information (unaudited)

### **Franklin Mutual Shares VIP Fund**

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$312,292,884 as a long term capital gain dividend for the fiscal year ended December 31, 2019.

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 72.64% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2019.

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## Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions (after the deduction of certain withholding taxes for the NR or Net Return Index). They do not reflect any fees, expenses or sales charges.

For Russell Indexes: Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

**Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index** measures the performance of U.S. Treasury bills that have a remaining maturity of greater than or equal to one month and less than three months.

**Bloomberg Barclays U.S. Aggregate Bond Index** is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

**Bloomberg Barclays U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and Standard & Poor's is Ba1/BB+/BB+ or below.

**Bloomberg Barclays U.S. Government Index: Intermediate Component** is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

**Bloomberg Barclays U.S. High Yield Very Liquid Index** is a component of the U.S. Corporate High Yield Index designed to track a more liquid component of the U.S. dollar-denominated, high-yield fixed-rate corporate bond market.

**Bloomberg Barclays U.S. Treasury Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with at least one year until final maturity.

**Consumer Price Index (CPI)** is a commonly used measure of the inflation rate.

**FTSE® EPRA®/NAREIT® Developed Index** is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

**FTSE World Government Bond Index** is a market capitalization-weighted index consisting of investment-grade world government bond markets.

**J.P. Morgan (JPM) Global Government Bond Index (GGBI)** tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

**Lipper Multi-Sector Income Funds Classification Average** is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds Classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocation of assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/19, there were 324 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government

Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/19, there were 26 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**MSCI All Country Asia Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in developed and emerging markets in Asia.

**MSCI All Country World Index (ACWI)** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

**MSCI All Country World Index (ACWI) ex USA Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets, excluding the U.S.

**MSCI Europe, Australasia, Far East (EAFE) Index** is a free float-adjusted market capitalization-weighted index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

**MSCI Emerging Markets (EM) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

**MSCI USA High Dividend Yield Index** is based on the MSCI USA Index, its parent index, and includes large- and mid-capitalization stocks. The index is designed to reflect the performance of equities in the parent index (excluding real estate investment trusts) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

**MSCI World Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

**Russell 1000® Growth Index** is market capitalization weighted and measures performance of those Russell 1000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

**Russell 1000® Index** is market capitalization weighted and measures performance of the approximately 1,000 largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

**Russell 2000® Index** is market capitalization weighted and measures performance of the approximately 2,000 smallest companies in the Russell 3000® Index, which represent a small amount of the total market capitalization of the Russell 3000® Index.

**Russell 2000® Value Index** is market capitalization weighted and measures performance of those Russell 2000® Index companies with relatively lower price-to-book ratios and lower forecasted growth rates.

**Russell 3000® Growth Index** is market capitalization weighted and measures performance of those Russell 3000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

**Russell Midcap® Growth Index** is market capitalization weighted and measures performance of those Russell Midcap® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

**Russell Midcap® Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represents a modest amount of the Russell 1000® Index's total market capitalization.

**Standard & Poor's® 500 Index (S&P 500®)** is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

**Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.



## Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

### Independent Board Members

| Name, Year of Birth and Address   | Position                 | Length of Time Served  | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years   |
|---|--------------------------|--|--|---|
| <b>Harris J. Ashton (1932)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Trustee                  | Since 1988   | 134  | Bar-S Foods (meat packing company) (1981-2010).   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director of various companies; and <b>formerly</b> , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).  |                          |  |  |   |
| <b>Terrence J. Checki (1945)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Trustee                  | Since 2017   | 113  | Hess Corporation (exploration of oil and gas) (2014-present).   |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and <b>formerly</b> , Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014). |                          |  |  |   |
| <b>Mary C. Choksi (1950)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Trustee                  | Since 2014   | 134  | Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present)  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director of various companies; and <b>formerly</b> , Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).  |                          |  |  |   |
| <b>Edith E. Holiday (1952)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Lead Independent Trustee | Trustee since 2005 and Lead Independent Trustee since March 2019 | 134  | Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013). |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director or Trustee of various companies and trusts; and <b>formerly</b> , Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison—United States Treasury Department (1988-1989).   |                          |  |  |   |

## Independent Board Members (continued)

| Name, Year of Birth and Address   | Position | Length of Time Served | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years   |
|---|----------|-----------------------|--|---|
| <b>J. Michael Luttig (1954)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Trustee  | Since 2009            | 134  | Boeing Capital Corporation (aircraft financing) (2006-2013).  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Executive Vice President, Counselor and Senior Advisor to Boeing Chairman and Board of Directors, The Boeing Company (aerospace company) (2019-present); member of the Executive Council, The Boeing Company (2006-present) and <b>formerly</b> , General Counsel, The Boeing Company (2006-2019) and Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).   |          |                       |  |   |
| <b>Larry D. Thompson (1945)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Trustee  | Since 2007            | 134  | The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012). |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present; previously 2011-2012); and <b>formerly</b> , Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003). |          |                       |  |   |

## Interested Board Members and Officers

| Name, Year of Birth and Address   | Position                           | Length of Time Served                                    | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|------------------------------------|--|--|---|
| <b>**Gregory E. Johnson (1961)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Trustee                            | Since 2013   | 146  | None  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 39 of the investment companies in Franklin Templeton; Vice Chairman, Investment Company Institute; and <b>formerly</b> , President, Franklin Resources, Inc. (1994-2015). |                                    |  |  |   |
| <b>**Rupert H. Johnson, Jr. (1940)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Chairman of the Board, and Trustee | Chairman of the Board since 2013, and Trustee since 1988 | 134  | None  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 37 of the investment companies in Franklin Templeton.   |                                    |  |  |   |
| <b>Alison E. Baur (1964)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Vice President                     | Since 2012   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Deputy General Counsel, Franklin Templeton; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton.   |                                    |  |  |   |

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address   | Position   | Length of Time Served  | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|---|--|--|--|---|
| <b>Gaston Gardey (1967)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Treasurer,<br>Chief Financial<br>Officer and<br>Chief<br>Accounting<br>Officer | Since 2009   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton; and officer of 24 of the investment companies in Franklin Templeton.  |  |  |  |   |
| <b>Steven J. Gray (1955)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Vice President<br>and<br>Co-Secretary  | Vice President<br>since 2009<br>and Co-Secretary<br>since 2019 | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Associate General Counsel, Franklin Templeton; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 41 of the investment companies in Franklin Templeton.  |  |  |  |   |
| <b>Matthew T. Hinkle (1971)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Chief Executive<br>Officer –<br>Finance and<br>Administration                  | Since 2017   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Senior Vice President, Franklin Templeton Services, LLC; officer of 41 of the investment companies in Franklin Templeton; and <b>formerly</b> , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton (2009-2017).  |  |  |  |   |
| Robert Lim (1948)<br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President<br>– AML<br>Compliance  | Since 2016   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 41 of the investment companies in Franklin Templeton.   |  |  |  |   |
| <b>Edward D. Perks (1970)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | President and<br>Chief Executive<br>Officer –<br>Investment<br>Management      | Since 2018   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>President and Director, Franklin Advisers, Inc.; and officer of eight of the investment companies in Franklin Templeton (since December 2018).   |  |  |  |   |
| <b>Robert C. Rosselot (1960)</b><br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923   | Chief<br>Compliance<br>Officer   | Since 2013   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Director, Global Compliance, Franklin Templeton; Vice President, Franklin Templeton Companies, LLC; officer of 41 of the investment companies in Franklin Templeton; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013). |  |  |  |   |
| <b>Navid J. Tofigh (1972)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906   | Vice President   | Since 2015   | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>Associate General Counsel, Franklin Templeton; and officer of 41 of the investment companies in Franklin Templeton.  |  |  |  |   |

## Interested Board Members and Officers (continued)

| Name, Year of Birth and Address  | Position                              | Length of Time Served   | Number of Portfolios in Fund Complex Overseen by Board Member* | Other Directorships Held During at Least the Past 5 Years |
|--|---------------------------------------|---|--|---|
| <b>Craig S. Tyle (1960)</b><br>One Franklin Parkway<br>San Mateo, CA 94403-1906  | Vice President                        | Since 2005  | Not Applicable   | Not Applicable  |
| <b>Principal Occupation During at Least the Past 5 Years:</b><br>General Counsel, Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton. |                                       |   |  |   |
| <b>Lori A. Weber (1964)</b><br>300 S.E. 2nd Street<br>Fort Lauderdale, FL 33301-1923   | Vice President<br>and<br>Co-Secretary | Vice President<br>since 2011 and<br>Co-Secretary<br>since<br>January 2019 | Not Applicable   | Not Applicable  |

**Principal Occupation During at Least the Past 5 Years:**  
Senior Associate General Counsel, Franklin Templeton; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 41 of the investment companies in Franklin Templeton.

\*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton fund complex. These portfolios have a common investment manager or affiliated investment managers.

\*\*Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Effective March 12, 2019, John B. Wilson ceased to be a trustee of the Trust.

Note 3: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated Mary C. Choksi as its audit committee financial expert. The Board believes that Ms. Choksi qualifies as such an expert in view of her extensive business background and experience. She currently serves as a director of Avis Budget Group, Inc. (2007-present) and formerly, Founder and Senior Advisor, Strategic Investment Group (1987 to 2017). Ms. Choksi has been a Member of the Fund's Audit Committee since 2014. As a result of such background and experience, the Board believes that Ms. Choksi has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Choksi is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

## Shareholder Information

### Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at [franklintempleton.com](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year as an exhibit to its report on Form N-PORT. Shareholders may view the filed Form N-PORT by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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**Variable Product Funds**

70100 Ameriprise Financial Center  
Minneapolis, MN 55474

PRSR STD  
U.S. POSTAGE  
**PAID**  
RIVERSOURCE  
LIFE INSURANCE  
COMPANY

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.



**Annual Report**  
**Franklin Templeton Variable Insurance Products Trust**

**Investment Managers**  
Franklin Advisers, Inc.  
Franklin Mutual Advisers,  
LLC  
Franklin Templeton  
Institutional, LLC  
Templeton Asset  
Management Ltd.  
Templeton Global Advisors  
Limited  
Templeton Investment  
Counsel, LLC

**Fund Administrator**  
Franklin Templeton Services, LLC

**Distributor**  
Franklin Templeton Distributors,  
Inc.