



**FRANKLIN  
TEMPLETON**

**Annual Report**

December 31, 2018

# Franklin Templeton Variable Insurance Products Trust





# Franklin Templeton Variable Insurance Products Trust Annual Report

## Table of Contents

---

<b>Important Notes to Performance Information</b> .....	i
<b>*Supplement to the Prospectus for all Funds</b> .....	PS-1
<b>Fund Summary</b>	
Franklin Mutual Shares VIP Fund .....	MS-1
<b>*Prospectus Supplement</b> .....	MS-9
<b>Index Descriptions</b> .....	I-1
<b>Board Members and Officers</b> .....	BOD-1
<b>Shareholder Information</b> .....	SI-1

\*Not part of the annual report. Retain for your records.

**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.

**SUPPLEMENT DATED JULY 10, 2018  
TO THE PROSPECTUS DATED MAY 1, 2018  
OF  
FRANKLIN FLEX CAP GROWTH VIP FUND  
FRANKLIN FOUNDING FUNDS ALLOCATION VIP FUND  
FRANKLIN GLOBAL REAL ESTATE VIP FUND  
FRANKLIN GROWTH AND INCOME VIP FUND  
FRANKLIN INCOME VIP FUND  
FRANKLIN LARGE CAP GROWTH VIP FUND  
FRANKLIN MUTUAL GLOBAL DISCOVERY VIP FUND  
FRANKLIN MUTUAL SHARES VIP FUND  
FRANKLIN RISING DIVIDENDS VIP FUND  
FRANKLIN SMALL CAP VALUE VIP FUND  
FRANKLIN SMALL-MID CAP GROWTH VIP FUND  
FRANKLIN STRATEGIC INCOME VIP FUND  
FRANKLIN U.S. GOVERNMENT SECURITIES VIP FUND  
FRANKLIN VOLSMART ALLOCATION VIP FUND  
TEMPLETON DEVELOPING MARKETS VIP FUND  
TEMPLETON FOREIGN VIP FUND  
TEMPLETON GLOBAL BOND VIP FUND  
TEMPLETON GROWTH VIP FUND  
(each a series of Franklin Templeton Variable Insurance Products Trust)**

I. The following replaces the third paragraph in the prospectus under “Additional Information, All Funds – Fund Account Information – Fund Account Policies – Calculating Share Price:”

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year’s Day, Martin Luther King Jr. Day, President’s Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close, the Fund’s share price would be determined as of the time of the close of the NYSE. If, due to weather or other special or unexpected circumstances, the NYSE has an unscheduled early close on a day that it has opened for business, the Fund reserves the right to consider that day as a regular business day and accept purchase and redemption orders and calculate its share price as of the normally scheduled close of regular trading on the NYSE.

*Please keep this supplement with your prospectus for future reference.*

This page intentionally left blank.

# Franklin Mutual Shares VIP Fund

This annual report for Franklin Mutual Shares VIP Fund covers the fiscal year ended December 31, 2018.

## Class 2 Performance Summary as of December 31, 2018

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 12/31/18	1-Year	5-Year	10-Year
Average Annual Total Return	-9.07%	+3.09%	+9.00%

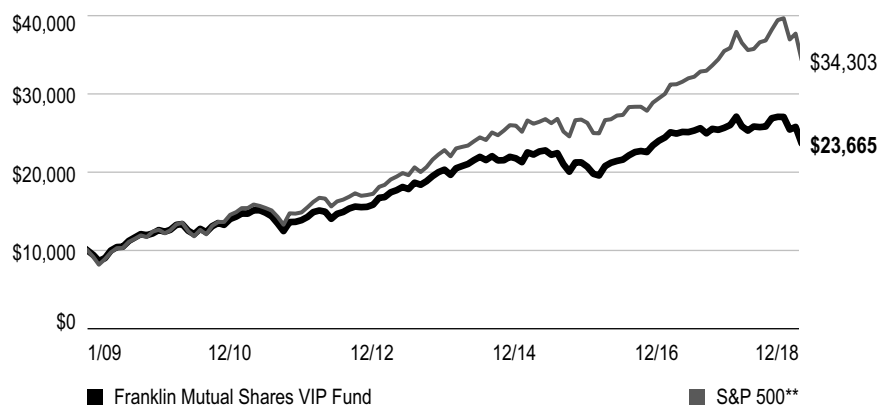
\*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/19. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

*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 (1/1/09–12/31/18)

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

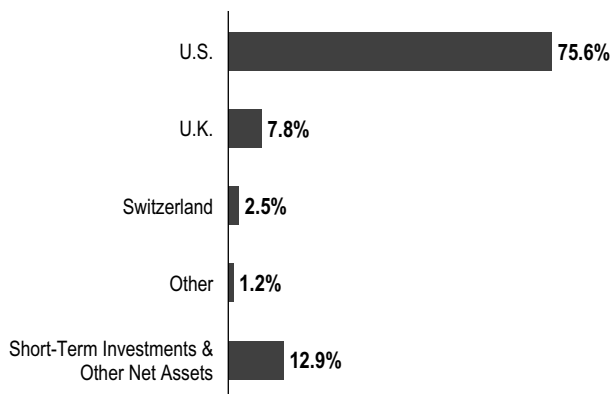
The Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's investment manager believes are available at market prices less than their intrinsic value. The equity securities in which the Fund invests are primarily common stock. 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 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 special risks including currency fluctuations, and economic and political uncertainties. 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 12/31/18



\*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, had a -4.38% total return for the period under review.<sup>1</sup>

## Economic and Market Overview

The global economy expanded during the 12 months under review, despite weakness in certain regions. Global developed and emerging market stocks were aided at certain points during the period by higher crude oil prices, upbeat economic data, easing trade tensions and encouraging corporate earnings reports, as well as indications of a slower pace of interest-rate increases from the U.S. Federal Reserve (Fed).

However, various factors weighed on global markets during the period, including concerns about tighter regulation of technology companies, political uncertainties in the U.S. and the European Union, and major central banks' interest-rate path and unwinding of monetary stimulus measures. Markets were further pressured by U.S. trade disputes with its allies and China, and their impact on global growth and corporate earnings. In this environment, global stocks, as measured by the MSCI All Country World Index, had a -8.93% total return for the 12 months ended December 31, 2018.<sup>1</sup>

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.

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 U.S. economy grew during the 12-month period. After moderating for three consecutive quarters, the economy grew faster in 2018's second quarter, driven by consumer spending, business investment, exports and government spending. However, growth moderated in the third quarter due to declines in exports and housing investment. The unemployment rate declined from 4.1% in December 2017 to 3.9% at period-end.<sup>2</sup> Annual inflation, as measured by the Consumer Price Index, decreased from 2.1% in December 2017 to 1.9% at period-end.<sup>2</sup> The Fed raised its target range for the federal funds rate four times during the period, to 2.25%–2.50%, and continued reducing its balance sheet as part of an ongoing plan to normalize monetary policy. At its December meeting, the Fed reduced the projected 2019 rate increases to two, compared to three projected previously.

In Europe, the U.K.'s quarterly economic growth moderated in 2018's first quarter, but accelerated in 2018's second and third quarters. The Bank of England raised its key policy rate once during the review period. After moderating in 2018's first quarter, the eurozone's quarterly growth remained stable in the second quarter, but eased in the third quarter. The bloc's annual inflation rate ended the period higher than in December 2017. The European Central Bank (ECB) kept its benchmark interest rate unchanged during the period. In December 2018, the ECB confirmed its plan to conclude its bond purchase program at the end of 2018 and reiterated it expects key interest rates to remain unchanged through the summer of 2019.

In Asia, Japan's quarterly gross domestic product (GDP) grew in 2018's second quarter, following a contraction in the first quarter, but contracted again in the third quarter. The Bank of Japan left its benchmark interest rate unchanged during the period and continued its monetary stimulus measures.

In emerging markets, Brazil's quarterly GDP growth remained stable in 2018's first and second quarters, but accelerated in the third quarter. The Central Bank of Brazil lowered its benchmark interest rate twice during the period. Russia's annual GDP growth rate accelerated in 2018's first and second quarters, but moderated in the third quarter. After lowering its key rate twice early in the period, the Bank of Russia raised it twice in the period's second half to curtail inflation risks. China's annual GDP grew at a stable rate in 2018's first quarter, but it moderated in the second and third quarters. The People's Bank of China left its benchmark interest rate unchanged during the period, but it took measures to improve financial liquidity to mitigate the negative effects of the

## Top 10 Sectors/Industries

12/31/18

	% of Total Net Assets
Banks	9.4%
Insurance	8.0%
Oil, Gas & Consumable Fuels	8.0%
Pharmaceuticals	7.3%
Media	4.8%
Health Care Equipment & Supplies	3.6%
Technology Hardware, Storage & Peripherals	3.2%
Food & Staples Retailing	2.9%
Tobacco	2.8%
Household Durables	2.5%

U.S.-China trade dispute and support economic growth. Overall, emerging market stocks, as measured by the MSCI Emerging Markets Index, had a -14.25% total return during the period.<sup>1</sup>

## 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

2. Source: U.S. Bureau of Labor Statistics.

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/gains that may be incurred by a companion financial instrument.

## **Manager’s Discussion**

In 2018, corporate profits in the U.S. and other developed markets continued their impressive year-over-year growth. In addition, labor markets showed further improvement, consumer spending was solid, and U.S. corporate tax reforms encouraged companies to buy back stock, raise dividends and increase capital expenditures. Those positive fundamentals were periodically overshadowed by political and economic concerns, particularly in the final three months of the year.

As major U.S. equity markets established new all-time highs in 2018, overall U.S. equity market valuations (e.g., price-to-earnings, price-to-book or price-to-sales) became increasingly unattractive, in our analysis. The equity market sell-off in the fourth-quarter helped to return valuations to more reasonable levels. The sell-off and rise in volatility yielded an opportunity for us to seek out stocks with strong corporate fundamentals and valuations whose risk/reward profiles seemed to us to have become more favorable.

In 2019, policy events may have considerable influence, for better or worse, on economic growth, investor sentiment and financial market performance and volatility. Markets are likely to be particularly sensitive to developments in U.S.-China trade relations, monetary policy moves by the U.S. Federal Reserve and other major central banks, oil production decisions by OPEC (The Organization of the Petroleum Exporting Countries) and other oil producing countries, the outcome of Brexit, China’s response to its slowing economy and potential political discord in Washington, D.C.

Europe’s equity market overall was trading at an attractively lower price-to-earnings multiple and higher dividend yield than the U.S. equity market at period-end. We also saw an increase in investor activism, which we viewed as encouraging. However, those favorable factors were offset in part by economic data, which showed a greater degree of deceleration in activity across the region. From an investment standpoint, we are hopeful that 2019 will be a year of potential resolution and clarity. The biggest political event will likely be Brexit, as a resolution to the situation remained unclear as of period-end. The uncertainty around the terms and timing of a deal continued to undermine consumer and corporate confidence. From our perspective, we believe the European Union and the U.K. will ultimately reach an agreement that makes sense for both sides, and we believe the approval of such an agreement would likely have a significantly positive effect on investor, consumer and corporate sentiment. We will also pay close attention to structural reform efforts in France and the political transition in Germany. In December, Chancellor Angela Merkel stepped down as leader of the Christian Democratic Union but stated her intention to remain in office for the remaining three years of her term as Chancellor.

Developments in Asia also weighed on U.S. equity markets, as the U.S.-China trade conflict has disrupted manufacturing activity and supply chains. Amid the trade conflict, China has proven resolute in its attempt to dampen the reliance on leverage, which has weighed on economic activity as well. While the government has enacted some stimulus measures, such as tax cuts, they may be less impactful than prior stimulus through fiscal spending.

### **Investment Spotlight**

In all market environments, we seek to invest prudently in securities that we believe represent good value. We do this by seeking securities that trade at a discount to our intrinsic value estimate, taking into account the quality of the asset, the sustainability of returns, and the growth potential of the business. We also believe the potential to deliver the best risk-adjusted return over a full market cycle requires us to be focused on applying our cross-asset approach: owning equities and debt—in certain cases multiple securities across the capital structure of a company—across geographies and sectors with an emphasis on corporate actions as catalysts. Our health care sector positions are a good example of our investment process. They have been carefully selected over a number of years, and in 2018, many of our long-standing sector investments

appreciated meaningfully. Collectively our sector exposure outperformed the health care sector within the MSCI World Index.<sup>3</sup>

Within the health care sector, our investment process has generally been focused on finding innovative companies that are market leaders and that invest substantial amounts of capital into research and development (R&D) as a means to sustain and grow market positions. In addition, many of our positions have been in diversified pharmaceutical companies that also have long-duration cash flows through their leading positions in animal health, vaccine, and over-the-counter medicine businesses. These businesses can offer downside protection in years when pharmaceutical R&D is less successful or in years when important products lose patent protection. These businesses are attractive and have been undervalued by the market. This undervaluation allowed us to build positions, and in 2018, some of this undervaluation was reversed.

Eli Lilly and Merck are quintessential examples of our investment process. They are leading innovation-driven pharmaceutical companies that invest substantial amounts of capital into R&D to develop transformative medicines. Both companies have introduced innovative new products in the past many years like Trulicity for diabetes and Keytruda for oncology that we believe will continue to offer substantial long-term revenue growth. The management teams at both companies take a long-term view and focus on enhancing their market positions through both internal and external innovation. Acquiring late stage innovation can be expensive, which is why Lilly and Merck take a prudent approach to generally focusing on early stage assets. Competition is typically less intense for early stage assets, and they can add value through their own development process and pass along that value to shareholders. Shareholder focus also comes through at both companies through their return of excess capital to shareholders through large dividends and share buybacks.

In our view, both companies also have strong, long-duration assets. Lilly and Merck are the fourth and third largest players in animal health, respectively. In September 2018, Lilly sold a portion of its Elanco<sup>4</sup> shares to the public in order to create additional shareholder value, while Merck started providing segment level profit disclosures so investors could better appreciate the contribution and value of their animal health

business. Merck is also the second largest player in vaccines, a highly attractive business that is underappreciated, in our opinion.

Another common feature between Lilly and Merck is their strong balance sheets. Both companies also generate substantial amounts of free cash flows, with a significant proportion returned to shareholders in the form of dividends and share buybacks. In addition, the two companies are focused on managing their business more efficiently and improving their operating margins, which we believe will lead to additional earnings growth over the next several years.

### **Mergers and Acquisitions**

In health care and elsewhere, merger and acquisition (M&A) activity remained healthy in 2018. The market received some clarity regarding the regulatory environment when a federal judge ruled in favor of AT&T and Time Warner<sup>5</sup>, and against the U.S. Department of Justice, in its antitrust lawsuit. However, economic, financial market and geopolitical uncertainty that arose in the second half of the year caused the pace of activity to slow. In our view, it was notable that health care has become one of the busier sectors for M&A as it is relatively more insulated from economic uncertainty. The strength and path of M&A activity in 2019 will likely depend in large part on how the uncertainties carrying over from 2018 play out and how they affect equity markets. From our experience, changes in equity market performance and deal activity have tended to move in a similar direction.

### **Credit Markets**

Finding mispriced risk in credit markets was challenging in 2018. Low interest rates kept credit widely available, default rates remained at historically low levels and we continued to witness a deterioration in debt covenant terms, which include restrictions on financial activities by the borrower or parameters for specific financial metrics. Liberal interpretations of credit agreements and bond indentures in order to shift valuable assets beyond the reach of creditors were an ongoing challenge. In such an environment, we found more opportunities investing in short-term mispriced risk rather than long-term restructurings.

However, we are hopeful that more opportunities may emerge in 2019, especially if we are starting to enter latter stages of the business cycle. U.S. monetary policy is becoming less

3. Please see Index Descriptions following the Fund Summaries.

4. Not a Fund holding.

5. Not held at period-end.

accommodative, economic growth appears to be downshifting into a slower pace, earnings growth is set to slow, and geopolitical uncertainty is on the rise. These dynamics have already contributed to a general rise in financial market volatility. At the same time, the amount of lower-rated investment-grade credit stands at a historically high level on an absolute basis and relative to corporate debt markets overall. We believe default rates and the pace of corporate downgrades could begin to pick up in 2019. As a result, 2019 could bring a rise in fallen-angel opportunities (bonds downgraded from investment-grade to junk status) and idiosyncratic opportunities in out-of-favor industries. We will continue to look for opportunities across the capital structures of companies with liquidity-enhancing events, such as asset sales, the ability to issue secured debt within existing agreements, and free-cash flow that could buy time for a company to weather its financial storm.

### Fund Performance

Turning to Fund performance, top positive contributors included U.S.-based pharmaceutical company Eli Lilly, global research-driven pharmaceutical company Merck and multinational software company Microsoft.

Shares of Eli Lilly were boosted in large part by a series of strong quarterly results during 2018. Attractive corporate fundamentals and fewer investor concerns regarding the direct impact on the pharmaceutical industry from the Trump administration's efforts to lower prescription drug prices helped push the stock higher. We believe Eli Lilly continues to have a strong product growth story and room for further margin expansion, in addition to having solid research and development capabilities.

Merck is a global research-driven pharmaceutical company with strong market positions in oncology, diabetes, vaccines and animal health. Investors remained upbeat about its future prospects, particularly its Keytruda oncology drug. Merck released clinical trial results, which showed that for the first-line treatment of metastatic nonsquamous non-small lung cancer patients, Keytruda combined with chemotherapy substantially extended survival of patients compared with chemotherapy alone. The Keytruda results set a high bar for competition and appeared to enhance Keytruda's prospects to gain share in the sizeable market for lung cancer treatment. Results from a competitor, Bristol-Myers Squibb<sup>4</sup>, were less compelling in a different clinical trial in lung cancer. In October 2018, Merck raised its dividend and authorized a new large share buyback plan.

### Top 10 Holdings

12/31/18

Company Sector/Industry, Country	% of Total Net Assets
Medtronic PLC <i>Health Care Equipment &amp; Supplies, U.S.</i>	3.6%
Novartis AG <i>Pharmaceuticals, Switzerland</i>	2.5%
Merck & Co. Inc. <i>Pharmaceuticals, U.S.</i>	2.4%
Eli Lilly & Co. <i>Pharmaceuticals, U.S.</i>	2.3%
The Walt Disney Co. <i>Entertainment, U.S.</i>	2.3%
JPMorgan Chase & Co. <i>Banks, U.S.</i>	2.2%
Cisco Systems Inc. <i>Communications Equipment, U.S.</i>	2.0%
Charter Communications Inc. <i>Media, U.S.</i>	1.9%
Wells Fargo & Co. <i>Banks, U.S.</i>	1.9%
Royal Dutch Shell PLC <i>Oil, Gas &amp; Consumable Fuels, U.K.</i>	1.8%

Microsoft continued to reap the rewards of its rapidly growing cloud computing business and its efforts to move Microsoft Office software clients to a subscription-based service. In 2018, Microsoft reported solid quarterly growth in revenues and earnings per share. In April 2018, it also increased its operating margin estimate for the fiscal year ended June 30, 2018. We believe Microsoft's cloud computing and subscription-based services can continue to grow at a strong pace, which may likely further lift its operating margin. We exited the position as the stock price reached our estimate of fair value.

During the period under review, Fund investments that detracted from performance included U.K.-based British American Tobacco, U.S.-based insurer American International Group (AIG) and U.S.-based industrials company General Electric (GE).

Shares of British American Tobacco faced downward pressure due to potential additional U.S. regulation and concerns regarding next generation products. In March 2018, the U.S. Food and Drug Administration (FDA) issued an Advance Notice of Proposed Rulemaking, which started the process of examining the possibility of regulating nicotine levels in combustible cigarettes. The process may not result in regulation, but if it does, many experts believe the review could take seven to 10 years. Meanwhile, JUUL, produced by JUUL Labs<sup>4</sup>, has emerged as a popular e-cigarette for young

consumers in the U.S. It is unclear to what degree JUUL is cannibalizing the combustible market, but it has hurt investor sentiment toward the industry. In November, shares of British American Tobacco and industry peers dropped, as the FDA revisited the possibility of banning menthol as a flavor in cigarettes, which would take years with many steps to complete, and in our opinion, an FDA proposal would face litigation from the industry. Industry experts have suggested that it might not survive legal challenges.

Shares of AIG slipped in early 2018 as investors reacted negatively to the price AIG paid to acquire Validus Holdings<sup>4</sup>, a provider of insurance and reinsurance products. The acquisition price represented a significant premium to Validus' stock price immediately prior to the announcement. However, we believe the acquisition made strategic sense as Validus gives AIG a complementary group of profitable insurance and reinsurance businesses. The stock price slipped further in October 2018, due to larger-than-expected catastrophe-related losses announced ahead of quarterly results. The losses were due to multiple typhoons in Japan, Hurricane Florence and wildfires in California. Investors tend to look beyond uncharacteristic weather-related losses. However, we believe AIG's series of operating challenges and negative surprises in prior years, such as additional commercial reserves and increases in loss estimates on current business, likely factored into the stock's meaningful decline.

GE is a multi-industrial company with a diverse set of businesses in power generation, health care and aviation. During 2018, the stock suffered a number of setbacks starting in January with a greater-than-expected charge related to long-term care policies in its insurance subsidiary. In June, the stock was removed from the Dow Jones Index and in September, GE stated that fan blades in some of its power-plant turbines were experiencing oxidation problems. In October, S&P Global Ratings, a bond rating agency, cut GE's debt rating, while GE cut its dividend and stated that the Securities and Exchange Commission was expanding an ongoing investigation to include an accounting write-down related to its power-generation division. Amid the negative events in 2018, management took the first steps in what amounts to a breakup of GE, announcing in May 2018 the merger of its transportation operations into Wabtec<sup>4</sup> and plans to spin-off its health care division and divest its stake in oil-services firm Baker Hughes. In October 2018, GE unexpectedly replaced chief executive officer (CEO) John Flannery, who spent his entire career at GE, with Larry Culp, a former CEO of Danaher<sup>4</sup>, an industrial company. We believe Culp made some prudent initial moves, and that his plan to reduce debt and strengthen GE's balance

sheet is a step in the right direction to restoring investor confidence in the company.

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 positive overall impact on the Fund's performance because of the appreciation of the U.S. dollar versus the hedged currencies.

#### **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.

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

## 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 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	
Class 2	\$1,000	\$916.10	\$4.59	\$1,020.42	\$4.84	0.95%

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.

**SUPPLEMENT DATED MAY 1, 2018  
TO THE PROSPECTUSES DATED MAY 1, 2018  
OF  
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FRANKLIN MUTUAL SHARES VIP FUND**

Effective May 1, 2018, the prospectuses are amended as follows:

I. The “Fund Summary – Annual Fund Operating Expenses” table on page MS-S1 in the Franklin Mutual Shares VIP Fund’s Class 1 prospectus is replaced with the following:

**Annual Fund Operating Expenses**

(expenses that you pay each year as a percentage of the value of your investment)

	<b>Class 1</b>
Management fees <sup>1</sup>	0.68%
Distribution and service (12b-1) fees	None
Other expenses	0.03%
<b>Total annual Fund operating expenses<sup>1</sup></b>	<b>0.71%</b>

1. Management fees in the table above have been restated to reflect a reduction in the management fee of the Fund effective on May 1, 2018. Consequently, the total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights due to a different management fee rate paid in the Fund’s most recent fiscal year. If the management fees had not been restated, management fees would have been 0.69% and the Total annual Fund operating expenses would have been 0.72%.

II. The “Fund Summary – Example” table on page MS-S1 in the Franklin Mutual Shares VIP Fund’s Class 1 prospectus is replaced with the following:

	<b>1 Years</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Class 1</b>	\$73	\$227	\$395	\$883

III. The “Fund Summary – Annual Fund Operating Expenses” table on page MS-S1 in the Franklin Mutual Shares VIP Fund’s Class 2 prospectus is replaced with the following:

**Annual Fund Operating Expenses**

(expenses that you pay each year as a percentage of the value of your investment)

	<b>Class 2</b>
Management fees <sup>1</sup>	0.68%
Distribution and service (12b-1) fees	0.25%
Other expenses	0.03%
<b>Total annual Fund operating expenses<sup>1</sup></b>	<b>0.96%</b>

1. Management fees in the table above have been restated to reflect a reduction in the management fee of the Fund effective on May 1, 2018. Consequently, the total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights due to a different management fee rate paid in the Fund’s most recent fiscal year. If the management fees had not been restated, management fees would have been 0.69% and the Total annual Fund operating expenses would have been 0.97%.

IV. The “Fund Summary – Example” table on page MS-S1 in the Franklin Mutual Shares VIPFund’s Class 2 prospectus is replaced with the following:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Class 2</b>	\$98	\$306	\$531	\$1,178

V. The “Fund Summary – Annual Fund Operating Expenses” table on page MS-S1 in the Franklin Mutual Shares VIP Fund’s Class 4 prospectus is replaced with the following:

**Annual Fund Operating Expenses**

(expenses that you pay each year as a percentage of the value of your investment)

	<b>Class 4</b>
Management fees <sup>1</sup>	0.68%
Distribution and service (12b-1) fees	0.35%
Other expenses	0.03%
<b>Total annual Fund operating expenses<sup>1</sup></b>	<b>1.06%</b>

1. Management fees in the table above have been restated to reflect a reduction in the management fee of the Fund effective on May 1, 2018. Consequently, the total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights due to a different management fee rate paid in the Fund’s most recent fiscal year. If the management fees had not been restated, management fees would have been 0.69% and the Total annual Fund operating expenses would have been 1.07%.

VI. The “Fund Summary – Example” table on page MS-S1 in the Franklin Mutual Shares VIP Fund’s Class 4 prospectus is replaced with the following:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Class 4</b>	\$108	\$337	\$585	\$1,294



VII. The following is added as the second to last paragraph before the “Manager of Managers Structure” sub-section in the “Fund Details – Management” section of each Class’ prospectus on page MS-D8:

Effective May 1, 2018, the Fund’s investment management fee was reduced, as approved by the board of trustees. Prior to May 1, 2018, the Fund paid Franklin Mutual an investment management fee equal to an annual rate of:

- 0.750% of the value of its average daily net assets up to and including \$200 million;
- 0.735% of the value of its average daily net assets over \$200 million, up to and including \$700 million;
- 0.700% of the value of its average daily net assets over \$700 million, up to and including \$1.2 billion;
- 0.675% of the value of its average daily net assets over \$1.2 billion, up to and including \$5 billion;
- 0.645% of the value of its average daily net assets over \$5 billion, up to and including \$10 billion;
- 0.625% of the value of its average daily net assets over \$10 billion, up to and including \$15 billion;
- 0.605% of the value of its average daily net assets over \$15 billion, up to and including \$20 billion; and
- 0.585% of the value of its average daily net assets in excess of \$20 billion.

Effective May 1, 2018, the Fund’s investment management fee was reduced to a fee equal to an annual rate of:

- 0.675% of the value of its average daily net assets up to and including \$5 billion;
- 0.645% of the value of its average daily net assets over \$5 billion, up to and including \$10 billion;
- 0.625% of the value of its average daily net assets over \$10 billion, up to and including \$15 billion;
- 0.595% of the value of its average daily net assets over \$15 billion, up to and including \$20 billion;
- 0.585% of the value of its average daily net assets over \$20 billion, up to and including \$25 billion;
- 0.565% of the value of its average daily net assets over \$25 billion, up to and including \$30 billion;
- 0.555% of the value of its average daily net assets over \$30 billion, up to and including \$35 billion; and
- 0.545% of the value of its average daily net assets in excess of \$35 billion.

*Please keep this supplement with your prospectus for future reference.*

## Financial Highlights

### Franklin Mutual Shares VIP Fund

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 1</b>					
<b>Per share operating performance</b> (for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$20.71	\$20.40	\$19.48	\$22.91	\$21.92
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.36	0.49	0.50	0.44	0.62 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(2.04)	1.22	2.56	(1.54)	1.01
Total from investment operations . . . . .	(1.68)	1.71	3.06	(1.10)	1.63
Less distributions from:					
Net investment income . . . . .	(0.55)	(0.53)	(0.46)	(0.77)	(0.52)
Net realized gains . . . . .	(0.77)	(0.87)	(1.68)	(1.56)	(0.12)
Total distributions . . . . .	(1.32)	(1.40)	(2.14)	(2.33)	(0.64)
Net asset value, end of year . . . . .	\$17.71	\$20.71	\$20.40	\$19.48	\$22.91
Total return <sup>d</sup> . . . . .	(8.86)%	8.64%	16.35%	(4.69)%	7.38%
<b>Ratios to average net assets</b>					
Expenses <sup>e,f</sup> . . . . .	0.71% <sup>g</sup>	0.72% <sup>g</sup>	0.72% <sup>g</sup>	0.73% <sup>g</sup>	0.73%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.77%	2.34%	2.57%	2.00%	2.83% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$537,324	\$653,700	\$610,395	\$643,438	\$656,463
Portfolio turnover rate . . . . .	24.67%	18.32%	24.45%	19.88%	21.33%

<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>Net investment income per share includes approximately \$0.23 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.79%.

<sup>d</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>e</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(d).

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

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

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 2</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$20.36	\$20.08	\$19.20	\$22.60	\$21.63
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.31	0.43	0.45	0.38	0.58 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(2.00)	1.20	2.52	(1.51)	0.97
Total from investment operations . . . . .	(1.69)	1.63	2.97	(1.13)	1.55
Less distributions from:					
Net investment income . . . . .	(0.50)	(0.48)	(0.41)	(0.71)	(0.46)
Net realized gains . . . . .	(0.77)	(0.87)	(1.68)	(1.56)	(0.12)
Total distributions . . . . .	(1.27)	(1.35)	(2.09)	(2.27)	(0.58)
Net asset value, end of year . . . . .	\$17.40	\$20.36	\$20.08	\$19.20	\$22.60
Total return <sup>d</sup> . . . . .	(9.07)%	8.35%	16.06%	(4.94)%	7.12%
<b>Ratios to average net assets</b>					
Expenses <sup>e,f</sup> . . . . .	0.96% <sup>g</sup>	0.97% <sup>g</sup>	0.97% <sup>g</sup>	0.98% <sup>g</sup>	0.98%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.52%	2.09%	2.32%	1.75%	2.58% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$2,516,834	\$3,476,913	\$3,621,358	\$3,353,505	\$4,218,342
Portfolio turnover rate . . . . .	24.67%	18.32%	24.45%	19.88%	21.33%

<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>Net investment income per share includes approximately \$0.23 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.54%.

<sup>d</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>e</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(d).

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

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

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL HIGHLIGHTS

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 4</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$20.53	\$20.23	\$19.32	\$22.72	\$21.74
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.29	0.41	0.44	0.36	0.57 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(2.02)	1.21	2.53	(1.52)	0.96
Total from investment operations . . . . .	(1.73)	1.62	2.97	(1.16)	1.53
Less distributions from:					
Net investment income . . . . .	(0.48)	(0.45)	(0.38)	(0.68)	(0.43)
Net realized gains . . . . .	(0.77)	(0.87)	(1.68)	(1.56)	(0.12)
Total distributions . . . . .	(1.25)	(1.32)	(2.06)	(2.24)	(0.55)
Net asset value, end of year . . . . .	\$17.55	\$20.53	\$20.23	\$19.32	\$22.72
Total return <sup>d</sup> . . . . .	(9.16)%	8.25%	15.94%	(5.05)%	7.04%
<b>Ratios to average net assets</b>					
Expenses <sup>e,f</sup> . . . . .	1.06% <sup>g</sup>	1.07% <sup>g</sup>	1.07% <sup>g</sup>	1.08% <sup>g</sup>	1.08%
Expenses incurred in connection with securities sold short . . . . .	0.01%	—%	0.01%	0.02%	0.03%
Net investment income . . . . .	1.42%	1.99%	2.22%	1.65%	2.48% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$105,047	\$122,942	\$122,476	\$130,978	\$158,020
Portfolio turnover rate . . . . .	24.67%	18.32%	24.45%	19.88%	21.33%

<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>Net investment income per share includes approximately \$0.23 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.44%.

<sup>d</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>e</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(d).

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

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

**Statement of Investments, December 31, 2018**  
**Franklin Mutual Shares VIP Fund**

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests 82.2%</b>			
<b>Aerospace &amp; Defense 0.9%</b>			
BAE Systems PLC . . . . .	United Kingdom	4,627,145	\$ 27,096,320
<b>Auto Components 0.5%</b>			
The Goodyear Tire & Rubber Co. . . . .	United States	632,638	12,912,142
<sup>a,b,c</sup> International Automotive Components Group Brazil LLC . . . . .	Brazil	1,730,515	73,334
<sup>a,b,c</sup> International Automotive Components Group North America LLC . . . . .	United States	15,382,424	1,833,585
			<u>14,819,061</u>
<b>Automobiles 1.2%</b>			
General Motors Co. . . . .	United States	1,130,130	37,802,849
<b>Banks 9.4%</b>			
Barclays PLC . . . . .	United Kingdom	9,593,272	18,414,345
CIT Group Inc. . . . .	United States	686,226	26,261,869
Citigroup Inc. . . . .	United States	872,519	45,423,339
Citizens Financial Group Inc. . . . .	United States	1,659,766	49,344,843
<sup>a</sup> FCB Financial Holdings Inc., A . . . . .	United States	493,723	16,579,218
Guaranty Bancorp. . . . .	United States	209,583	4,348,847
JPMorgan Chase & Co. . . . .	United States	707,320	69,048,579
State Bank Financial Corp. . . . .	United States	352,200	7,603,998
Wells Fargo & Co. . . . .	United States	1,273,660	58,690,253
			<u>295,715,291</u>
<b>Biotechnology 0.6%</b>			
Shire PLC . . . . .	United Kingdom	339,464	19,783,596
<b>Building Products 1.1%</b>			
Johnson Controls International PLC . . . . .	United States	1,158,300	34,343,595
<b>Chemicals 0.0%</b>			
<sup>a,b,d</sup> Dow Corning Corp., Contingent Distribution . . . . .	United States	100,000	—
<b>Communications Equipment 2.0%</b>			
Cisco Systems Inc. . . . .	United States	1,440,180	62,403,000
<b>Construction &amp; Engineering 0.6%</b>			
Fluor Corp. . . . .	United States	592,282	19,071,480
<b>Consumer Finance 1.7%</b>			
Ally Financial Inc. . . . .	United States	763,354	17,297,602
Capital One Financial Corp. . . . .	United States	502,985	38,020,636
			<u>55,318,238</u>
<b>Containers &amp; Packaging 1.5%</b>			
International Paper Co. . . . .	United States	905,775	36,557,079
WestRock Co. . . . .	United States	283,171	10,692,537
			<u>47,249,616</u>
<b>Diversified Financial Services 1.1%</b>			
Voya Financial Inc. . . . .	United States	861,810	34,593,053
<b>Diversified Telecommunication Services 1.8%</b>			
AT&T Inc. . . . .	United States	1,186,478	33,862,082
Koninklijke KPN NV . . . . .	Netherlands	7,561,343	22,179,293
			<u>56,041,375</u>
<b>Electric Utilities 0.3%</b>			
<sup>a</sup> PG&E Corp. . . . .	United States	425,751	10,111,586

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

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

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests</b> (continued)			
<b>Electrical Equipment 1.5%</b>			
<sup>a</sup> Sensata Technologies Holding PLC . . . . .	United States	1,091,630	\$ 48,948,689
<b>Energy Equipment &amp; Services 1.2%</b>			
Baker Hughes a GE Co., A . . . . .	United States	1,491,285	32,062,627
<sup>a</sup> McDermott International Inc. . . . .	United States	699,157	4,572,487
			<u>36,635,114</u>
<b>Entertainment 2.3%</b>			
The Walt Disney Co. . . . .	United States	659,400	72,303,210
<b>Equity Real Estate Investment Trusts (REITs) 1.4%</b>			
Alexander's Inc. . . . .	United States	40,126	12,227,997
Vornado Realty Trust . . . . .	United States	494,996	30,704,602
			<u>42,932,599</u>
<b>Food &amp; Staples Retailing 2.9%</b>			
The Kroger Co. . . . .	United States	1,818,160	49,999,400
Walgreens Boots Alliance Inc. . . . .	United States	594,558	40,626,148
			<u>90,625,548</u>
<b>Health Care Equipment &amp; Supplies 3.6%</b>			
Medtronic PLC . . . . .	United States	1,257,412	114,374,196
<b>Health Care Providers &amp; Services 1.5%</b>			
CVS Health Corp. . . . .	United States	732,861	48,017,053
<b>Household Durables 2.5%</b>			
Lennar Corp., A . . . . .	United States	592,100	23,180,715
Newell Brands Inc. . . . .	United States	2,155,117	40,063,625
Toll Brothers Inc. . . . .	United States	480,500	15,822,865
			<u>79,067,205</u>
<b>Household Products 0.6%</b>			
Energizer Holdings Inc. . . . .	United States	458,300	20,692,245
<b>Independent Power &amp; Renewable Electricity Producers 0.6%</b>			
<sup>a</sup> Vistra Energy Corp. . . . .	United States	805,295	18,433,203
<b>Industrial Conglomerates 0.8%</b>			
General Electric Co. . . . .	United States	3,376,300	25,558,591
<b>Insurance 8.0%</b>			
Alleghany Corp. . . . .	United States	93,288	58,148,276
American International Group Inc. . . . .	United States	1,394,096	54,941,324
<sup>a</sup> Brighthouse Financial Inc. . . . .	United States	582,400	17,751,552
Chubb Ltd. . . . .	United States	351,145	45,360,911
The Hartford Financial Services Group Inc. . . . .	United States	916,278	40,728,557
MetLife Inc. . . . .	United States	892,303	36,637,961
			<u>253,568,581</u>
<b>IT Services 1.5%</b>			
Cognizant Technology Solutions Corp., A . . . . .	United States	729,270	46,294,060
<b>Machinery 0.7%</b>			
CNH Industrial NV . . . . .	United Kingdom	663,594	5,996,023
CNH Industrial NV, special voting . . . . .	United Kingdom	1,844,814	16,669,148
			<u>22,665,171</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

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

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests</b> (continued)			
<b>Media 4.8%</b>			
<sup>a</sup> Charter Communications Inc., A	United States	213,313	\$ 60,787,806
Comcast Corp., A	United States	1,255,300	42,742,965
<sup>a</sup> Cumulus Media Inc., A	United States	60,894	657,655
<sup>a</sup> Cumulus Media Inc., B	United States	90,790	862,505
<sup>a</sup> Discovery Inc., C	United States	1,186,600	27,386,728
<sup>a</sup> DISH Network Corp., A	United States	724,283	18,085,346
			150,523,005
<b>Metals &amp; Mining 0.4%</b>			
thyssenkrupp AG	Germany	419,840	7,212,308
Warrior Met Coal Inc.	United States	248,815	5,998,930
			13,211,238
<b>Oil, Gas &amp; Consumable Fuels 8.0%</b>			
Anadarko Petroleum Corp.	United States	776,770	34,053,597
BP PLC	United Kingdom	3,508,292	22,188,551
Kinder Morgan Inc.	United States	2,798,340	43,038,469
Marathon Oil Corp.	United States	2,769,401	39,713,210
Plains All American Pipeline LP	United States	979,300	19,625,172
Royal Dutch Shell PLC, A (EUR Traded)	United Kingdom	1,247,949	36,684,082
Royal Dutch Shell PLC, A (GBP Traded)	United Kingdom	735,364	21,639,110
The Williams Cos. Inc.	United States	1,583,398	34,913,926
			251,856,117
<b>Pharmaceuticals 7.3%</b>			
Eli Lilly & Co.	United States	630,886	73,006,128
Merck & Co. Inc.	United States	1,013,148	77,414,639
Novartis AG, ADR	Switzerland	937,381	80,436,663
			230,857,430
<b>Professional Services 0.5%</b>			
RELX PLC	United Kingdom	767,173	15,814,823
<b>Software 2.2%</b>			
<sup>a</sup> Avaya Holdings Corp., wts., 12/15/22	United States	91,551	187,679
<sup>a</sup> Red Hat Inc.	United States	155,000	27,224,200
Symantec Corp.	United States	2,283,061	43,138,438
			70,550,317
<b>Technology Hardware, Storage &amp; Peripherals 3.2%</b>			
Apple Inc.	United States	21,497	3,390,937
Hewlett Packard Enterprise Co.	United States	1,843,367	24,350,878
Samsung Electronics Co. Ltd.	South Korea	1,388,076	48,233,868
Western Digital Corp.	United States	712,700	26,348,519
			102,324,202
<b>Tobacco 2.8%</b>			
Altria Group Inc.	United States	586,888	28,986,398
British American Tobacco PLC	United Kingdom	1,099,335	35,048,173
British American Tobacco PLC, ADR	United Kingdom	376,733	12,002,713
Imperial Brands PLC	United Kingdom	430,978	13,064,103
			89,101,387

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

Franklin Mutual Shares VIP Fund (continued)

	Country	Shares/ Units/ Warrants	Value
<b>Common Stocks and Other Equity Interests (continued)</b>			
<b>Wireless Telecommunication Services 1.2%</b>			
<sup>a</sup> T-Mobile U.S. Inc. . . . . .	United States	623,800	\$ 39,679,918
<b>Total Common Stocks and Other Equity Interests (Cost \$2,237,901,769) . . . . .</b>			<u>2,598,382,962</u>
<b>Management Investment Companies (Cost \$34,970,362) 1.0%</b>			
<b>Diversified Financial Services 1.0%</b>			
<sup>a</sup> Altaba Inc. . . . .	United States	559,700	<u>32,429,018</u>
		<b>Principal Amount</b>	
<b>Corporate Notes and Senior Floating Rate Interests 3.2%</b>			
<sup>e</sup> Banff Merger Sub Inc., senior note, 144A, 9.75%, 9/01/26 . . . . .	United States	\$ 18,444,000	16,922,370
<sup>f,g</sup> Cumulus Media New Holdings Inc., Term Loan, 7.03%, (1-month USD LIBOR + 4.50%), 5/13/22. . . . .	United States	11,747,525	11,147,908
Frontier Communications Corp., senior note, 10.50%, 9/15/22 . . . . .	United States	22,633,000	15,843,100
senior note, 11.00%, 9/15/25 . . . . .	United States	25,535,000	16,021,936
<sup>e</sup> McDermott Technology Americas Inc., senior note, 144A, 10.625%, 5/01/24 . . . . .	United States	9,797,000	8,302,958
<sup>f,g</sup> Veritas US Inc., Term Loan B1, 7.022%, (1-month USD LIBOR + 4.50%), 1/27/23 . . . . .	United States	13,181,244	11,341,366
Term Loan B1, 7.303%, (3-month USD LIBOR + 4.50%), 1/27/23 . . . . .	United States	4,321,334	3,718,149
<sup>e</sup> Veritas US Inc./Veritas Bermuda Ltd., senior note, 144A, 7.50%, 2/01/23 . . . . .	United States	2,856,000	2,341,920
senior note, 144A, 10.50%, 2/01/24 . . . . .	United States	23,445,000	<u>15,532,313</u>
<b>Total Corporate Notes and Senior Floating Rate Interests (Cost \$122,570,973) . . . . .</b>			<u>101,172,020</u>
<b>Corporate Notes and Senior Floating Rate Interests in Reorganization 1.9%</b>			
<sup>b,c,h</sup> Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12 . . . . .	United States	1,754	—
<sup>h</sup> iHeartCommunications Inc., senior secured note, first lien, 9.00%, 12/15/19 . . . . .	United States	26,449,000	17,853,075
<sup>f,g</sup> Tranche D Term Loan, 8.443%, (3-month USD LIBOR + 6.75%), 1/30/19 . . . . .	United States	34,746,619	23,502,265
<sup>f,g</sup> Tranche E Term Loan, 9.193%, (3-month USD LIBOR + 7.50%), 7/30/19 . . . . .	United States	11,168,253	7,550,521
<sup>f,g,h</sup> Toys R US-Delaware Inc., Term B-4 Loan, 10.067%, (3-month USD LIBOR + 8.75%), 4/24/20. . . . .	United States	20,394,452	<u>10,095,254</u>
<b>Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost \$90,457,765) . . . . .</b>			<u>59,001,115</u>
		<b>Shares</b>	
<b>Companies in Liquidation 0.0%†</b>			
<sup>a,b,d</sup> Avaya Holdings Corp., Contingent Distribution . . . . .	United States	30,319,000	—
<sup>a,b,d</sup> Avaya Inc., Contingent Distribution . . . . .	United States	34,518,267	—
<sup>a,b,d</sup> Tribune Media, Litigation Trust, Contingent Distribution . . . . .	United States	398,509	—



FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

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

	Country	Shares	Value
<b>Companies in Liquidation</b> (continued)			
<sup>a,d</sup> Vistra Energy Corp., Litigation Trust, Contingent Distribution . . . . .	United States	90,618,406	\$ 81,557
<b>Total Companies in Liquidation (Cost \$3,081,854)</b> . . . . .			<u>81,557</u>
<b>Total Investments before Short Term Investments (Cost \$2,488,982,723)</b> . . . . .			<u>2,791,066,672</u>
		<u>Principal Amount</u>	
 <b>Short Term Investments 11.3%</b>			
<b>U.S. Government and Agency Securities 11.3%</b>			
<sup>i</sup> FHLB, 1/02/19 . . . . .	United States	\$ 28,200,000	28,200,000
<sup>i</sup> U.S. Treasury Bill, 1/02/19 . . . . .	United States	35,000,000	35,000,000
1/03/19 . . . . .	United States	50,000,000	49,996,838
1/10/19 . . . . .	United States	50,000,000	49,974,654
<sup>j</sup> 1/17/19 - 1/24/19 . . . . .	United States	44,000,000	43,946,801
1/29/19 - 6/13/19 . . . . .	United States	150,000,000	<u>149,085,675</u>
<b>Total U.S. Government and Agency Securities (Cost \$356,180,141)</b> . . . . .			<u>356,203,968</u>
<b>Total Investments (Cost \$2,845,162,864) 99.6%</b> . . . . .			3,147,270,640
<b>Securities Sold Short (1.2)%</b> . . . . .			(39,080,983)
<b>Other Assets, less Liabilities 1.6%</b> . . . . .			<u>51,014,860</u>
<b>Net Assets 100.0%</b> . . . . .			<u>\$3,159,204,517</u>
		<u>Shares</u>	
<sup>k</sup> <b>Securities Sold Short (1.2)%</b>			
<b>Common Stocks (1.2)%</b>			
<b>Internet &amp; Direct Marketing Retail (0.9)%</b>			
Alibaba Group Holding Ltd., ADR . . . . .	China	214,876	<u>(29,453,054)</u>
<b>Pharmaceuticals (0.3)%</b>			
Takeda Pharmaceutical Co. Ltd. . . . .	Japan	284,810	<u>(9,627,929)</u>
<b>Total Securities Sold Short (Proceeds \$46,016,113)</b> . . . . .			<u>\$ (39,080,983)</u>

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

<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 12 regarding fair value measurements.

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

<sup>d</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>e</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. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the aggregate value of these securities was \$43,099,561, representing 1.4% of net assets.

<sup>f</sup>The coupon rate shown represents the rate at period end.

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

<sup>h</sup>See Note 7 regarding credit risk and defaulted 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, 2018, the aggregate value of these securities pledged amounted to \$17,908,984, representing 0.6% of net assets.

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

At December 31, 2018, the Fund had the following futures contracts outstanding. See Note 1(c).

**Futures Contracts**

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
<b>Currency Contracts</b>					
EUR/USD .....	Short	257	\$37,016,031	3/18/19	\$ 5,526
GBP/USD .....	Short	959	76,660,063	3/18/19	158,466
Total Futures Contracts .....					<u>\$163,992</u>

\*As of period end.

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

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

At December 31, 2018, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
<b>OTC Forward Exchange Contracts</b>							
South Korean Won . . . . .	BONY	Sell	3,860,199,792	\$ 3,447,838	1/18/19	\$ —	\$ (20,019)
South Korean Won . . . . .	HSBK	Buy	6,315,745,800	5,597,869	1/18/19	75,958	—
South Korean Won . . . . .	HSBK	Sell	33,022,504,444	29,493,859	1/18/19	—	(172,305)
South Korean Won . . . . .	UBSW	Sell	22,526,948,564	20,116,939	1/18/19	—	(120,416)
British Pound . . . . .	BOFA	Buy	1,237,567	1,569,806	2/14/19	11,958	—
British Pound . . . . .	HSBK	Buy	854,173	1,087,584	2/14/19	4,155	—
British Pound . . . . .	UBSW	Sell	17,984,807	22,640,984	2/14/19	—	(345,837)
Euro . . . . .	BOFA	Buy	1,660,723	1,903,337	2/20/19	7,724	—
Euro . . . . .	BONY	Sell	25,861,620	29,352,111	2/20/19	—	(407,893)
Euro . . . . .	HSBK	Buy	1,399,482	1,603,509	2/20/19	6,932	—
Euro . . . . .	SSBT	Buy	457,198	522,967	2/20/19	3,149	—
Euro . . . . .	UBSW	Buy	1,138,481	1,304,620	2/20/19	5,476	—
Total Forward Exchange Contracts . . . . .						\$ 115,352	\$ (1,066,470)
Net unrealized appreciation (depreciation) . . . . .							\$ (951,118)

<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-36.

## Financial Statements

### Statement of Assets and Liabilities

December 31, 2018

	<b>Franklin Mutual Shares VIP Fund</b>
<b>Assets:</b>	
Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$2,845,162,864
Value - Unaffiliated issuers . . . . .	\$3,147,270,640
Cash . . . . .	366,410
Foreign currency, at value (cost \$431,882) . . . . .	432,227
<b>Receivables:</b>	
Investment securities sold . . . . .	4,636,697
Capital shares sold . . . . .	1,608,439
Dividends and interest . . . . .	8,921,218
European Union tax reclaims. . . . .	1,629,961
<b>Deposits with brokers for:</b>	
Securities sold short . . . . .	39,252,523
Futures contracts . . . . .	3,049,660
Unrealized appreciation on OTC forward exchange contracts . . . . .	115,352
Other assets . . . . .	491
Total assets. . . . .	3,207,283,618
<b>Liabilities:</b>	
<b>Payables:</b>	
Investment securities purchased . . . . .	3,019,153
Capital shares redeemed . . . . .	1,100,385
Management fees . . . . .	1,863,045
Distribution fees. . . . .	1,184,188
Variation margin on futures contracts . . . . .	322,175
Securities sold short, at value (proceeds \$46,016,113) . . . . .	39,080,983
Unrealized depreciation on OTC forward exchange contracts . . . . .	1,066,470
Accrued expenses and other liabilities . . . . .	442,702
Total liabilities . . . . .	48,079,101
Net assets, at value . . . . .	\$3,159,204,517
<b>Net assets consist of:</b>	
Paid-in capital . . . . .	\$2,494,070,790
Total distributable earnings (loss) . . . . .	665,133,727
Net assets, at value . . . . .	\$3,159,204,517
<b>Class 1:</b>	
Net assets, at value . . . . .	\$ 537,323,852
Shares outstanding . . . . .	30,340,507
Net asset value and maximum offering price per share. . . . .	\$17.71
<b>Class 2:</b>	
Net assets, at value . . . . .	\$2,516,833,826
Shares outstanding . . . . .	144,638,819
Net asset value and maximum offering price per share. . . . .	\$17.40
<b>Class 4:</b>	
Net assets, at value . . . . .	\$ 105,046,839
Shares outstanding . . . . .	5,985,399
Net asset value and maximum offering price per share. . . . .	\$17.55

**Statement of Operations**

for the year ended December 31, 2018

	<b>Franklin Mutual Shares VIP Fund</b>
Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers . . . . .	\$ 80,591,074
Interest:	
Unaffiliated issuers . . . . .	16,013,718
Income from securities loaned:	
Unaffiliated issuers (net of fees and rebates) . . . . .	13,436
Non-controlled affiliates (Note 3e) . . . . .	27,822
Other income (Note 1g) . . . . .	339,500
Total investment income . . . . .	96,985,550
Expenses:	
Management fees (Note 3a) . . . . .	26,636,716
Distribution fees: (Note 3c)	
Class 2 . . . . .	7,946,604
Class 4 . . . . .	418,396
Custodian fees (Note 4) . . . . .	106,904
Reports to shareholders . . . . .	408,841
Professional fees . . . . .	186,707
Trustees' fees and expenses . . . . .	28,920
Dividends and interest on securities sold short . . . . .	211,805
Other . . . . .	97,655
Total expenses . . . . .	36,042,548
Expense reductions (Note 4) . . . . .	(29,109)
Expenses waived/paid by affiliates (Note 3e) . . . . .	(9,991)
Net expenses . . . . .	36,003,448
Net investment income . . . . .	60,982,102
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers . . . . .	287,412,097
Non-controlled affiliates (Note 3e and 10) . . . . .	4,122
Foreign currency transactions . . . . .	(422,929)
Forward exchange contracts . . . . .	10,506,122
Futures contracts . . . . .	10,448,555
Securities sold short . . . . .	844,435
Net realized gain (loss) . . . . .	308,792,402
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers . . . . .	(703,603,439)
Translation of other assets and liabilities	
denominated in foreign currencies . . . . .	(121,203)
Forward exchange contracts . . . . .	4,872,642
Futures contracts . . . . .	2,259,390
Securities sold short . . . . .	6,672,210
Net change in unrealized appreciation (depreciation) . . . . .	(689,920,400)
Net realized and unrealized gain (loss) . . . . .	(381,127,998)
Net increase (decrease) in net assets resulting from operations . . . . .	\$(320,145,896)
 *Foreign taxes withheld on dividends . . . . .	 \$ 2,323,484

**Statements of Changes in Net Assets**

	<b>Franklin Mutual Shares VIP Fund</b>	
	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 60,982,102	\$ 91,754,971
Net realized gain (loss) . . . . .	308,792,402	170,010,315
Net change in unrealized appreciation (depreciation) . . . . .	(689,920,400)	86,743,730
Net increase (decrease) in net assets resulting from operations . . . . .	(320,145,896)	348,509,016
Distributions to shareholders: (Note 1h)		
Class 1 . . . . .	(37,929,843)	(41,482,289)
Class 2 . . . . .	(194,310,469)	(222,945,179)
Class 4 . . . . .	(7,177,027)	(7,418,016)
Total distributions to shareholders . . . . .	(239,417,339)	(271,845,484)
Capital share transactions: (Note 2)		
Class 1 . . . . .	(27,996,947)	32,173,830
Class 2 . . . . .	(506,425,142)	(207,728,869)
Class 4 . . . . .	(365,846)	(1,780,903)
Total capital share transactions . . . . .	(534,787,935)	(177,335,942)
Net increase (decrease) in net assets . . . . .	(1,094,351,170)	(100,672,410)
Net assets:		
Beginning of year . . . . .	4,253,555,687	4,354,228,097
End of year (Note 1h) . . . . .	\$ 3,159,204,517	\$4,253,555,687

## 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. At December 31, 2018, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

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. 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 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



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

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, 2018, the Fund had OTC derivatives in a net liability position of \$973,949 and the aggregate value of collateral pledged for such contracts was \$723,302.

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.

**d. 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 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.

**e. 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

## Franklin Mutual Shares VIP Fund (continued)

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

#### e. Securities Lending (continued)

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, 2018, the Fund had no securities on loan.

#### f. 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.

#### g. 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 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, 2018, 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.

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

**h. 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.

\*Effective during the current reporting period, it is no longer required to present certain line items in the Statements of Changes in Net Assets. The below prior period amounts affected by this change are shown as they were in the prior year Statements of Changes in Net Assets.

For the year ended December 31, 2017, distributions to shareholders were as follows:

Distributions from net investment income :	
Class 1 . . . . .	\$ (15,730,869)
Class 2 . . . . .	(79,241,750)
Class 4 . . . . .	(2,544,123)
Distributions from net realized gains:	
Class 1 . . . . .	(25,751,420)
Class 2 . . . . .	(143,703,429)
Class 4 . . . . .	(4,873,893)

For the year ended December 31, 2017, undistributed net investment income included in net assets was \$89,531,283.

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.

**i. 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.

**j. 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, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
<b>Class 1 Shares:</b>				
Shares sold . . . . .	1,228,202	\$ 23,646,682	2,282,225	\$ 47,514,985
Shares issued in reinvestment of distributions . . . . .	1,881,441	37,929,843	2,083,490	41,482,289
Shares redeemed . . . . .	(4,336,171)	(89,573,472)	(2,721,619)	(56,823,444)
Net increase (decrease) . . . . .	(1,226,528)	\$ (27,996,947)	1,644,096	\$ 32,173,830
<b>Class 2 Shares:</b>				
Shares sold . . . . .	14,955,793	\$ 302,887,079	5,279,163	\$ 107,845,830
Shares issued in reinvestment of distributions . . . . .	9,803,757	194,310,469	11,374,754	222,945,179
Shares redeemed . . . . .	(50,860,562)	(1,003,622,690)	(26,252,304)	(538,519,878)
Net increase (decrease) . . . . .	(26,101,012)	\$ (506,425,142)	(9,598,387)	\$(207,728,869)
<b>Class 4 Shares:</b>				
Shares sold . . . . .	743,333	\$ 14,855,135	730,910	\$ 15,136,184
Shares issued in reinvestment of distributions . . . . .	358,852	7,177,027	375,216	7,418,016
Shares redeemed . . . . .	(1,104,232)	(22,398,008)	(1,172,050)	(24,335,103)
Net increase (decrease) . . . . .	(2,047)	\$ (365,846)	(65,924)	\$ (1,780,903)

**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**

Effective May 1, 2018, 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

Prior to May 1, 2018, the Fund paid fees to Franklin Mutual based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.750%	Up to and including \$200 million
0.735%	Over \$200 million, up to and including \$700 million
0.700%	Over \$700 million, up to and including \$1.2 billion
0.675%	Over \$1.2 billion, 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
0.605%	Over \$15 billion, up to and including \$20 billion
0.585%	In excess of \$20 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 0.680% of the Fund's average daily net assets.

**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.

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

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

**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, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Income from securities loaned	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 1.99% . . . . .	—	138,696,000	(138,696,000)	—	\$ —	\$27,822	\$ —	\$ —

**f. Other Affiliated Transactions**

At December 31, 2018, Franklin Templeton Variable Insurance Products Trust – Franklin Founding Funds Allocation VIP Fund owned 8.2% of the Fund’s outstanding shares.

**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, 2018, 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, 2018 and 2017, was as follows:

	2018	2017
Distributions paid from:		
Ordinary income . . . . .	\$ 94,583,983	\$129,070,184
Long term capital gain . . . . .	144,833,356	142,775,300
	<u>\$239,417,339</u>	<u>\$271,845,484</u>

At December 31, 2018, 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>\$2,822,459,698</u>
Unrealized appreciation . . . . .	\$ 615,205,930
Unrealized depreciation . . . . .	(330,258,834)
Net unrealized appreciation (depreciation) . . . . .	<u>\$ 284,947,096</u>
Distributable earnings:	
Undistributed ordinary income . . . . .	\$ 66,455,561
Undistributed long term capital gains . . . . .	312,458,357
Total distributable earnings . . . . .	<u>\$ 378,913,918</u>

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

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of defaulted securities, 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, 2018, aggregated \$893,911,605 and \$1,682,086,078, respectively.

**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, 2018, the aggregate long value of distressed company securities for which interest recognition has been discontinued was \$59,001,115, representing 1.9% 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, 2018, investments in restricted securities, excluding securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares	Issuer	Acquisition Date	Cost	Value
1,754	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12 .	7/01/10 - 11/30/12	\$ 1,754	\$ —
1,730,515	International Automotive Components Group Brazil LLC . . . . .	4/13/06 - 12/26/08	1,149,241	73,334
15,382,424	International Automotive Components Group North America LLC . . . . .	1/12/06 - 3/18/13	12,591,586	1,833,585
<b>Total Restricted Securities</b> (Value is 0.1% of Net Assets) . . . . .			<b>\$13,742,581</b>	<b>\$1,906,919</b>

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

**9. Other Derivative Information**

At December 31, 2018, the Fund's 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	\$163,992 <sup>a</sup>	Variation margin on futures contracts	\$ —
	Unrealized appreciation on OTC forward exchange contracts	115,352	Unrealized depreciation on OTC forward exchange contracts	1,066,470
Totals . . . . .		<u>\$279,344</u>		<u>\$1,066,470</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.

For the year ended December 31, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts . . .	Forward exchange contracts	\$10,506,122	Forward exchange contracts	\$4,872,642
	Futures contracts	10,448,555	Futures contracts	2,259,390
Totals . . . . .		<u>\$20,954,677</u>		<u>\$7,132,032</u>

For the year ended December 31, 2018, the average month end notional amount of futures contracts represented \$170,188,836. The average month end contract value of forward exchange contracts was \$283,840,852.

See Note 1(c) regarding derivative financial instruments.

**10. Holdings of 5% Voting Securities of Portfolio Companies**

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the year ended December 31, 2018, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
<b>Non-Controlled Affiliates</b>								
CB FIM Coinvestors LLC . . . . .	6,400,507	—	(6,400,507) <sup>a</sup>	—	\$—	\$—	\$4,122	\$—

<sup>a</sup>Gross reduction was the result of a corporate action.



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

**11. 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 8, 2019. 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 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, 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, 2018, the Fund did not use the Global Credit Facility.

**12. 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)

**12. Fair Value Measurements** (continued)

A summary of inputs used as of December 31, 2018, 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 . . . . .	\$ 12,912,142	\$ —	\$ 1,906,919	\$ 14,819,061
Machinery . . . . .	—	22,665,171	—	22,665,171
Media . . . . .	149,660,500	862,505	—	150,523,005
Metals & Mining . . . . .	5,998,930	7,212,308	—	13,211,238
Software . . . . .	70,362,638	187,679	—	70,550,317
All Other Equity Investments . . . . .	2,359,043,188	—	— <sup>c</sup>	2,359,043,188
Corporate Notes and Senior Floating Rate Interests . . . . .	—	101,172,020	—	101,172,020
Corporate Notes and Senior Floating Rate Interests in Reorganization . . . . .	—	59,001,115	— <sup>c</sup>	59,001,115
Companies in Liquidation . . . . .	—	81,557	— <sup>c</sup>	81,557
Short Term Investments . . . . .	328,003,968	28,200,000	—	356,203,968
Total Investments in Securities . . . . .	\$ 2,925,981,366	\$ 219,382,355	\$ 1,906,919	\$ 3,147,270,640
Other Financial Instruments:				
Futures Contracts . . . . .	\$ 163,992	\$ —	\$ —	\$ 163,992
Forward Exchange Contracts . . . . .	—	115,352	—	115,352
Total Other Financial Instruments . . . . .	\$ 163,992	\$ 115,352	\$ —	\$ 279,344
<b>Liabilities:</b>				
Other Financial Instruments:				
Securities Sold Short . . . . .	\$ 39,080,983	\$ —	\$ —	\$ 39,080,983
Forward Exchange Contracts . . . . .	—	1,066,470	—	1,066,470
Total Other Financial Instruments . . . . .	\$ 39,080,983	\$ 1,066,470	\$ —	\$ 40,147,453

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

<sup>b</sup>Includes common stocks, management investment companies as well as other equity interests.

<sup>c</sup>Includes securities determined to have no value at December 31, 2018.

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.

**13. 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>BONY</b> The Bank of New York Mellon Corp.	<b>GBP</b> British Pound	<b>FHLB</b> Federal Home Loan Bank
<b>HSBK</b> HSBC Bank PLC	<b>USD</b> United States Dollar	<b>LIBOR</b> London InterBank Offered Rate
<b>SSBT</b> State Street Bank and Trust Co., N.A.		
<b>UBSW</b> UBS AG		

## 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, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (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, 2018, 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, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 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, 2018 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 15, 2019

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 \$144,833,356 as a long term capital gain dividend for the fiscal year ended December 31, 2018.

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 52.06% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2018.

## Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions. 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 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. 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.

**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 12/31/18, there were 320 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 Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/18, there were 81 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 12/31/18, there were 56 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 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** captures large- and mid-capitalization representation across 22 of 23 developed markets countries (excluding the U.S.) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

**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 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 higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Index** is market capitalization weighted and measures performance of the 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 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 lower price-to-book ratios and lower forecasted growth values.

**Russell 2500™ Index** is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

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

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

**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 Investments 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> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	136	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b> 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> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2017	112	Hess Corporation (exploration of oil and gas) (2014-present).
<b>Principal Occupation During at Least the Past 5 Years:</b> 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> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	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> 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> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	136	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> 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).				
<b>J. Michael Luttig (1954)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	136	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				

**Independent Board Members** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Larry D. Thompson (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	136	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).

**Principal Occupation During at Least the Past 5 Years:**

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; previously 2011-2012); and **formerly**, 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, (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

<b>John B. Wilson (1959)</b> One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2007 and Lead Independent Trustee since 2008	112	None
--	--------------------------	--	-----	------

**Principal Occupation During at Least the Past 5 Years:**

President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing) (2002-present); Senior Advisor, McKinsey & Co. (consulting) (2017-present); serves on private and non-profit boards; and **formerly**, President, Staples International and Head of Global Transformation (office supplies) (2012-2016); Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

**Interested Board Members and Officers**

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	150	None

**Principal Occupation During at Least the Past 5 Years:**

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 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, and Trustee	Chairman of the Board since 2013, and Trustee since 1988	136	None
--	------------------------------------	--	-----	------

**Principal Occupation During at Least the Past 5 Years:**

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 40 of the investment companies in Franklin Templeton Investments.

<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
--	----------------	------------	----------------	----------------

**Principal Occupation During at Least the Past 5 Years:**

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.



**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Gaston Gardey (1967)</b> One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 28 of the investment companies in Franklin Templeton Investments.				
<b>Aliya S. Gordon (1973)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
<b>Steven J. Gray (1955)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Co-Secretary	Vice President since 2009 and Co-Secretary since January 2019	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
<b>Matthew T. Hinkle (1971)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and <b>formerly</b> , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).				
<b>Robert Lim (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.				
<b>Edward D. Perks (1970)</b> One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since December 2018	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> President and Director, Franklin Advisers, Inc.; and officer of nine of the investment companies in Franklin Templeton Investments (since December 2018).				

**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Robert C. Rosselot (1960)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
<b>Navid J. Tofigh (1972)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
<b>Craig S. Tyle (1960)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President and Co-Secretary	Vice President since 2011 and Co-Secretary since January 2019	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				

\*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments 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: 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 John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson 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. Mr. Wilson 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

## Board Approval of Investment Management Agreements

### FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

#### Franklin Founding Funds Allocation VIP Fund (Fund)

At a meeting held on October 23, 2018 (Meeting), the Board of Trustees (Board) of Franklin Templeton Variable Insurance Products Trust (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved (i) a new investment management agreement between Franklin Advisers, Inc. (FAV) and the Trust, on behalf of the Fund, and (ii) new investment sub-advisory agreements (each a Sub-Advisory Agreement) between FAV and each of Franklin Templeton Institutional, LLC and Templeton Global Advisors Limited (each a Sub-Adviser), affiliates of FAV, on behalf of the Fund (each a Management Agreement) for an initial two year period effective on or about May 1, 2019, subject to prior approval of the shareholders of the Fund. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve each new Management Agreement. FAV and the Sub-Advisers are each referred to herein as a Manager.

The Board reviewed and considered information provided by each Manager at the Meeting. The Board also considered a form of Management Agreement and Sub-Advisory Agreement, which have terms that are consistent with the current investment management agreements and investment sub-advisory agreements used for other funds in the Franklin Templeton Investments (FTI) fund complex. The Board further considered the code of ethics applied to the employees of each Manager and compliance policies and procedures applied to the employees of each Manager. The Board noted that the Fund currently maintains a static allocation to underlying funds and so does not currently have an investment manager, nor pay investment management fees. The Board discussed with FAV the reasons for its request that the Board approve the new Management Agreements, including the proposed repositioning of the Fund from a fund-of-funds with a static allocation strategy to a direct investment fund with an actively managed dynamic allocation strategy. The Board noted FAV’s explanation that, as currently structured, the Fund generally does not meet the eligibility criteria for insurance companies’ living benefits products. The Board also noted that the Fund’s assets have declined substantially, from \$4.2 billion as of

August 31, 2012, to \$923 million as of August 31, 2018. The Board further noted management’s belief that the proposed repositioning will enable the Fund to be more widely distributed across insurance company platforms, reduce the volatility of the Fund’s returns and reduce the Fund’s overall expenses.

The Board reviewed and considered all of the factors it deemed relevant in approving each new Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services to be provided by each Manager; (ii) the investment performance of the Fund; (iii) the costs of the services to be provided to the Fund; and (iv) the extent to which economies of scale are expected to be realized. The Board noted management’s proposal to request shareholder approval to allow the Fund to use a manager-of-manager structure as many other funds in the FTI fund complex have in place. The Board also noted that the Fund’s name would be changed to the “Franklin Allocation VIP Fund” to better reflect the repositioned strategy and structure of the Fund. In determining that the terms of each Management Agreement are fair and reasonable, the Board noted the level of services to be provided under each Management Agreement and the anticipated decrease in the overall fees and expenses of the Fund.

#### Nature, Extent and Quality of Services

The Board considered information regarding the nature, extent and quality of investment management services to be provided by each Manager and its affiliates to the Fund and its shareholders. In particular, the Board took into account management’s belief that the proposed repositioning, including the change from a static allocation fund-of-funds to a direct investment allocation fund, will enable the Fund to be more widely distributed across insurance company platforms and reduce the Fund’s overall expenses. The Board noted each Manager’s experience as manager of other funds and accounts, including those within the FTI organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of each Manager and each Manager’s capabilities, as demonstrated by, among other things, their policies and procedures designed to prevent violations of the Federal securities laws, which had previously been approved by the Board in connection with its oversight of other funds in the FTI organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services to be

provided by each Manager and its affiliates to the Fund and its shareholders.

### **Fund Performance**

The Board reviewed and considered the performance results of the Fund over various time periods ended August 31, 2018. The Board considered the performance returns for the Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in the Performance Universe. The Board also considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of the Fund's performance results is below.

The Performance Universe for the Fund included the Fund and all mixed-asset target allocation growth funds underlying variable insurance products (VIPs). The Board noted that the Fund's annualized income return for the one-, three-, five- and 10-year periods was above the median of its Performance Universe. The Board also noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was below the median of its Performance Universe. Given the Fund's income-oriented focus, the Board concluded that the Fund's performance was satisfactory, but noted that it did not consider the current performance of the Fund to be a material factor in its consideration of the Management Agreements given the proposed repositioning and restructuring of the Fund.

### **Comparative Fees and Expenses**

The Board reviewed and considered information regarding the Fund's proposed total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board considered the proposed total expense ratio and, separately, the proposed contractual management fee rate, without the effect of fee waivers (Management Rate), if any, of the Fund in comparison to the median expense ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure as proposed for the Fund selected by Broadridge (Expense Group). Broadridge fee and expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market

volatility. While recognizing such inherent limitation and the fact that expense ratios and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges, and the proposed total expense ratio was shown for Class 4 of the Fund and an actual total expense ratio was shown for Class B, Class 2, Class II, Service Class and Class S of the other funds in the Expense Group. The Board received a description of the methodology used by Broadridge to select the mutual funds included in the Expense Group.

The Expense Group for the Fund included the Fund and seven other mixed-asset target allocation growth funds underlying VIPs. The Board noted that the Management Rate and proposed total expense ratio were below the medians of its Expense Group. The Board concluded that the Management Rate to be charged to the Fund is reasonable. In doing so, the Board noted that the Fund's proposed total expense ratio reflected a fee waiver from management and that the Sub-Advisers would be paid by FAV out of the management fee FAV would receive from the Fund.

### **Profitability**

The Board then noted that FAV and its affiliates could not report any financial results from their relationships with the Fund because the Fund does not currently have an investment manager, nor pay investment management fees, and thus, the Board could not evaluate FAV's or its affiliates' profitability with respect to the Fund. The Board noted that investment management fees are currently paid by the underlying funds in which the Fund invests.

### **Economies of Scale**

The Board considered the extent to which FAV and its affiliates may realize economies of scale, if any, and whether the Fund's proposed management fee structure reflects any economies of scale for the benefit of shareholders. The Board noted that FAV (and its affiliates) could not report on any potential economies of scale at this time given the repositioning and restructuring of the Fund, but would be able to do so in connection with the Fund's annual contract renewal process.

### **Conclusion**

Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved each Management Agreement for an initial two year period effective

on or about May 1, 2019, subject to prior approval of the shareholders of the Fund.

## **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 on Form N-Q. Shareholders may view the filed Form N-Q 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.

This page intentionally left blank.





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

**Investment Managers**

Franklin Advisers, Inc.  
Franklin Advisory Services, LLC  
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.

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.