



Franklin Income VIP Fund

Financial Statements and Other Important Information

Semi-Annual | June 30, 2024

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Financial Highlights

Franklin Income VIP Fund

| | Six Months Ended June 30, 2024 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|----------------------|----------------------|--------------------|--------------------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Class 1 | | | | | | |
| Per share operating performance | | | | | | |
| (for a share outstanding throughout the period) | | | | | | |
| Net asset value, beginning of period | \$14.91 | \$15.39 | \$17.47 | \$15.65 | \$16.52 | \$15.26 |
| Income from investment operations ^a : | | | | | | |
| Net investment income ^b | 0.33 | 0.64 | 0.62 | 0.53 | 0.59 | 0.75 |
| Net realized and unrealized gains (losses) | 0.16 | 0.64 | (1.55) | 2.09 | (0.54) | 1.68 |
| Total from investment operations | 0.49 | 1.28 | (0.93) | 2.62 | 0.05 | 2.43 |
| Less distributions from: | | | | | | |
| Net investment income | (0.80) | (0.82) | (0.83) | (0.80) | (0.91) | (0.91) |
| Net realized gains | (0.06) | (0.94) | (0.32) | — | (0.01) | (0.26) |
| Total distributions | (0.86) | (1.76) | (1.15) | (0.80) | (0.92) | (1.17) |
| Net asset value, end of period | \$14.54 | \$14.91 | \$15.39 | \$17.47 | \$15.65 | \$16.52 |
| Total return ^c | 3.34% | 8.87% | (5.24)% | 17.00% | 0.97% | 16.42% |
| Ratios to average net assets^d | | | | | | |
| Expenses before waiver and payments by affiliates | 0.47% | 0.46% | 0.45% | 0.47% | 0.47% | 0.46% |
| Expenses net of waiver and payments by affiliates | 0.46% | 0.46% ^{e,f} | 0.45% ^{e,f} | 0.47% ^{e,f} | 0.46% ^e | 0.45% ^e |
| Net investment income | 4.49% | 4.35% | 3.82% | 3.20% | 3.96% | 4.38% |
| Supplemental data | | | | | | |
| Net assets, end of period (000's) | \$297,464 | \$291,326 | \$220,272 | \$243,732 | \$306,641 | \$309,330 |
| Portfolio turnover rate | 20.32% | 34.98% | 64.51% | 39.27% | 45.93% | 25.16% |

^aThe 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.

^bBased on average daily shares outstanding.

^cTotal 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. Total return is not annualized for periods less than one year.

^dRatios are annualized for periods less than one year.

^eBenefit of expense reduction rounds to less than 0.01%.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

Franklin Income VIP Fund (continued)

| | Six Months Ended June 30, 2024 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|----------------------|----------------------|--------------------|--------------------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Class 2 | | | | | | |
| Per share operating performance | | | | | | |
| (for a share outstanding throughout the period) | | | | | | |
| Net asset value, beginning of period | \$14.20 | \$14.73 | \$16.76 | \$15.04 | \$15.91 | \$14.74 |
| Income from investment operations ^a : | | | | | | |
| Net investment income ^b | 0.30 | 0.58 | 0.55 | 0.47 | 0.53 | 0.64 |
| Net realized and unrealized gains (losses) | 0.15 | 0.61 | (1.48) | 2.02 | (0.53) | 1.66 |
| Total from investment operations | 0.45 | 1.19 | (0.93) | 2.49 | — | 2.30 |
| Less distributions from: | | | | | | |
| Net investment income | (0.77) | (0.78) | (0.78) | (0.77) | (0.86) | (0.87) |
| Net realized gains | (0.06) | (0.94) | (0.32) | — | (0.01) | (0.26) |
| Total distributions | (0.83) | (1.72) | (1.10) | (0.77) | (0.87) | (1.13) |
| Net asset value, end of period | \$13.82 | \$14.20 | \$14.73 | \$16.76 | \$15.04 | \$15.91 |
| Total return ^c | 3.17% | 8.62% | (5.47)% | 16.75% | 0.69% | 16.06% |
| Ratios to average net assets^d | | | | | | |
| Expenses before waiver and payments by affiliates | 0.72% | 0.71% | 0.70% | 0.72% | 0.72% | 0.71% |
| Expenses net of waiver and payments by affiliates | 0.71% | 0.71% ^{e,f} | 0.70% ^{e,f} | 0.72% ^{e,f} | 0.71% ^e | 0.70% ^e |
| Net investment income | 4.24% | 4.09% | 3.56% | 2.95% | 3.73% | 4.13% |
| Supplemental data | | | | | | |
| Net assets, end of period (000's) | \$2,492,576 | \$2,546,077 | \$2,545,382 | \$3,026,228 | \$3,852,709 | \$4,318,156 |
| Portfolio turnover rate | 20.32% | 34.98% | 64.51% | 39.27% | 45.93% | 25.16% |

^aThe 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.

^bBased on average daily shares outstanding.

^cTotal 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. Total return is not annualized for periods less than one year.

^dRatios are annualized for periods less than one year.

^eBenefit of expense reduction rounds to less than 0.01%.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

Franklin Income VIP Fund (continued)

| | Six Months Ended June 30, 2024 (unaudited) | Year Ended December 31, | | | | |
|---|---|-------------------------|----------------------|----------------------|--------------------|--------------------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Class 4 | | | | | | |
| Per share operating performance | | | | | | |
| (for a share outstanding throughout the period) | | | | | | |
| Net asset value, beginning of period | \$14.67 | \$15.16 | \$17.23 | \$15.45 | \$16.32 | \$15.08 |
| Income from investment operations ^a : | | | | | | |
| Net investment income ^b | 0.30 | 0.58 | 0.55 | 0.46 | 0.53 | 0.64 |
| Net realized and unrealized gains (losses) | 0.16 | 0.64 | (1.53) | 2.07 | (0.54) | 1.71 |
| Total from investment operations | 0.46 | 1.22 | (0.98) | 2.53 | (0.01) | 2.35 |
| Less distributions from: | | | | | | |
| Net investment income | (0.75) | (0.77) | (0.77) | (0.75) | (0.85) | (0.85) |
| Net realized gains | (0.06) | (0.94) | (0.32) | — | (0.01) | (0.26) |
| Total distributions | (0.81) | (1.71) | (1.09) | (0.75) | (0.86) | (1.11) |
| Net asset value, end of period | \$14.32 | \$14.67 | \$15.16 | \$17.23 | \$15.45 | \$16.32 |
| Total return ^c | 3.11% | 8.55% | (5.59)% | 16.59% | 0.58% | 16.05% |
| Ratios to average net assets^d | | | | | | |
| Expenses before waiver and payments by affiliates | 0.82% | 0.81% | 0.80% | 0.82% | 0.82% | 0.81% |
| Expenses net of waiver and payments by affiliates | 0.81% | 0.81% ^{e,f} | 0.80% ^{e,f} | 0.82% ^{e,f} | 0.81% ^e | 0.80% ^e |
| Net investment income | 4.14% | 3.99% | 3.49% | 2.82% | 3.62% | 4.03% |
| Supplemental data | | | | | | |
| Net assets, end of period (000's) | \$355,158 | \$352,794 | \$325,205 | \$333,522 | \$302,474 | \$323,582 |
| Portfolio turnover rate | 20.32% | 34.98% | 64.51% | 39.27% | 45.93% | 25.16% |

^aThe 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.

^bBased on average daily shares outstanding.

^cTotal 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. Total return is not annualized for periods less than one year.

^dRatios are annualized for periods less than one year.

^eBenefit of expense reduction rounds to less than 0.01%.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

Schedule of Investments (unaudited), June 30, 2024

Franklin Income VIP Fund

| | Country | Shares | Value |
|--|---------------|---------|--------------|
| Common Stocks 27.8% | | | |
| Aerospace & Defense 1.4% | | | |
| Lockheed Martin Corp. | United States | 65,000 | \$30,361,500 |
| RTX Corp. | United States | 150,000 | 15,058,500 |
| | | | 45,420,000 |
| Air Freight & Logistics 0.3% | | | |
| United Parcel Service, Inc., B | United States | 60,000 | 8,211,000 |
| Banks 2.3% | | | |
| Bank of America Corp. | United States | 600,000 | 23,862,000 |
| Citigroup, Inc. | United States | 125,000 | 7,932,500 |
| Fifth Third Bancorp. | United States | 200,000 | 7,298,000 |
| JPMorgan Chase & Co. | United States | 120,000 | 24,271,200 |
| Truist Financial Corp. | United States | 250,000 | 9,712,500 |
| | | | 73,076,200 |
| Beverages 1.0% | | | |
| Coca-Cola Co. (The) | United States | 100,000 | 6,365,000 |
| PepsiCo, Inc. | United States | 150,000 | 24,739,500 |
| | | | 31,104,500 |
| Biotechnology 0.5% | | | |
| ^a AbbVie, Inc. | United States | 100,000 | 17,152,000 |
| Building Products 0.4% | | | |
| Johnson Controls International plc. | United States | 200,000 | 13,294,000 |
| Capital Markets 0.9% | | | |
| ^a Charles Schwab Corp. (The) | United States | 100,000 | 7,369,000 |
| ^a Morgan Stanley. | United States | 220,000 | 21,381,800 |
| | | | 28,750,800 |
| Chemicals 0.7% | | | |
| Air Products and Chemicals, Inc. | United States | 40,000 | 10,322,000 |
| LyondellBasell Industries NV, A | United States | 110,000 | 10,522,600 |
| | | | 20,844,600 |
| Communications Equipment 1.1% | | | |
| Cisco Systems, Inc. | United States | 700,000 | 33,257,000 |
| Consumer Staples Distribution & Retail 0.5% | | | |
| Target Corp. | United States | 100,000 | 14,804,000 |
| Containers & Packaging 0.3% | | | |
| International Paper Co. | United States | 200,000 | 8,630,000 |
| Diversified Telecommunication Services 0.5% | | | |
| Verizon Communications, Inc. | United States | 400,000 | 16,496,000 |
| Electric Utilities 3.4% | | | |
| American Electric Power Co., Inc. | United States | 100,000 | 8,774,000 |
| Duke Energy Corp. | United States | 150,000 | 15,034,500 |
| Edison International | United States | 100,000 | 7,181,000 |
| Entergy Corp. | United States | 100,000 | 10,700,000 |
| NextEra Energy, Inc. | United States | 332,379 | 23,535,757 |
| Southern Co. (The) | United States | 450,000 | 34,906,500 |
| Xcel Energy, Inc. | United States | 130,000 | 6,943,300 |
| | | | 107,075,057 |
| Ground Transportation 0.5% | | | |
| Union Pacific Corp. | United States | 75,000 | 16,969,500 |

Franklin Income VIP Fund (continued)

| | Country | Shares | Value |
|--|---------------|-----------|--------------------|
| Common Stocks (continued) | | | |
| Health Care Equipment & Supplies 0.2% | | | |
| Medtronic plc | United States | 100,000 | \$7,871,000 |
| Health Care Providers & Services 0.4% | | | |
| CVS Health Corp. | United States | 200,000 | 11,812,000 |
| Hotels, Restaurants & Leisure 0.5% | | | |
| McDonald's Corp. | United States | 30,000 | 7,645,200 |
| Starbucks Corp. | United States | 120,000 | 9,342,000 |
| | | | 16,987,200 |
| Household Products 0.6% | | | |
| Procter & Gamble Co. (The) | United States | 120,000 | 19,790,400 |
| Industrial Conglomerates 0.3% | | | |
| Honeywell International, Inc. | United States | 45,391 | 9,692,794 |
| Media 0.3% | | | |
| Comcast Corp., A | United States | 225,000 | 8,811,000 |
| Metals & Mining 0.8% | | | |
| Rio Tinto plc, ADR. | Australia | 365,529 | 24,099,327 |
| Multi-Utilities 1.3% | | | |
| Dominion Energy, Inc. | United States | 300,000 | 14,700,000 |
| DTE Energy Co. | United States | 100,000 | 11,101,000 |
| Sempra. | United States | 180,000 | 13,690,800 |
| | | | 39,491,800 |
| Oil, Gas & Consumable Fuels 3.9% | | | |
| Chevron Corp. | United States | 300,000 | 46,926,000 |
| ConocoPhillips | United States | 150,000 | 17,157,000 |
| Exxon Mobil Corp. | United States | 325,000 | 37,414,000 |
| Shell plc, ADR. | United States | 200,000 | 14,436,000 |
| TotalEnergies SE, ADR | France | 100,000 | 6,668,000 |
| | | | 122,601,000 |
| Pharmaceuticals 3.0% | | | |
| ^b Bausch Health Cos., Inc. | United States | 400,000 | 2,788,000 |
| Bristol-Myers Squibb Co. | United States | 150,000 | 6,229,500 |
| ^b Endo, Inc. | United States | 136,659 | 3,860,617 |
| ^{b,c} Endo, Inc., 144A | United States | 51,269 | 1,441,940 |
| Johnson & Johnson | United States | 275,000 | 40,194,000 |
| Merck & Co., Inc. | United States | 75,000 | 9,285,000 |
| Pfizer, Inc. | United States | 1,059,816 | 29,653,652 |
| | | | 93,452,709 |
| Semiconductors & Semiconductor Equipment 1.3% | | | |
| ^a Analog Devices, Inc. | United States | 80,000 | 18,260,800 |
| QUALCOMM, Inc. | United States | 45,000 | 8,963,100 |
| Texas Instruments, Inc. | United States | 75,000 | 14,589,750 |
| | | | 41,813,650 |
| Specialty Retail 0.8% | | | |
| Home Depot, Inc. (The) | United States | 70,000 | 24,096,800 |
| Tobacco 0.6% | | | |
| Philip Morris International, Inc. | United States | 200,000 | 20,266,000 |
| Total Common Stocks (Cost \$686,014,797) | | | 875,870,337 |

Franklin Income VIP Fund (continued)

| | Country | Shares | Value |
|--|---------------|---------|-------------------|
| Equity-Linked Securities 10.9% | | | |
| Aerospace & Defense 0.5% | | | |
| Barclays Bank plc into Northrop Grumman Corp., 144A, 7%, 11/08/24 | United States | 20,000 | \$8,988,263 |
| Wells Fargo Bank NA into Boeing Co. (The), 144A, 9%, 6/17/25 | United States | 35,000 | 6,265,383 |
| | | | <u>15,253,646</u> |
| Air Freight & Logistics 0.2% | | | |
| J.P. Morgan Structured Products BV into United Parcel Service, Inc., 144A, 9%, 10/22/24 | United States | 39,000 | 5,551,017 |
| Banks 0.8% | | | |
| BNP Paribas Issuance BV into Bank of America Corp., 144A, 8.5%, 2/26/25 | United States | 225,000 | 8,153,062 |
| Citigroup Global Markets Holdings, Inc. into Bank of America Corp., 144A, 8%, 8/16/24 | United States | 340,600 | 12,324,302 |
| Merrill Lynch International & Co. CV into Fifth Third Bancorp, 144A, 10%, 3/10/25 | United States | 160,000 | 5,731,520 |
| | | | <u>26,208,884</u> |
| Biotechnology 0.4% | | | |
| Barclays Bank plc into Amgen, Inc., 144A, 8%, 9/20/24 | United States | 45,000 | 12,903,501 |
| Capital Markets 0.7% | | | |
| Merrill Lynch International & Co. CV into Morgan Stanley, 144A, 9%, 7/14/25 | United States | 100,000 | 9,666,307 |
| UBS AG into Charles Schwab Corp. (The), 144A, 10%, 7/17/24 | United States | 200,000 | 12,924,526 |
| | | | <u>22,590,833</u> |
| Chemicals 0.5% | | | |
| Barclays Bank plc into Air Products and Chemicals, Inc., 144A, 8.5%, 3/10/25 | United States | 33,000 | 8,079,980 |
| National Bank of Canada into Albemarle Corp., 144A, 12%, 3/31/25 | United States | 80,000 | 8,223,586 |
| | | | <u>16,303,566</u> |
| Containers & Packaging 0.3% | | | |
| Mizuho Markets Cayman LP into International Paper Co., 144A, 10%, 1/22/25 | United States | 215,000 | 8,677,772 |
| Electric Utilities 0.5% | | | |
| Wells Fargo Bank NA into NextEra Energy, Inc., 144A, 8%, 5/21/25 | United States | 205,000 | 14,930,539 |
| Ground Transportation 0.4% | | | |
| Merrill Lynch BV into Union Pacific Corp., 144A, 8%, 11/05/24 | United States | 55,000 | 12,465,288 |
| Health Care Providers & Services 0.3% | | | |
| Wells Fargo Bank NA into UnitedHealth Group, Inc., 144A, 7%, 7/14/25 | United States | 17,000 | 8,433,507 |
| Insurance 0.5% | | | |
| BNP Paribas Issuance BV into MetLife, Inc., 144A, 9%, 10/23/24 | United States | 238,200 | 16,495,061 |
| Interactive Media & Services 0.4% | | | |
| JPMorgan Chase Bank NA into Alphabet, Inc., 144A, 8%, 3/28/25 | United States | 75,500 | 11,800,982 |
| IT Services 0.4% | | | |
| Barclays Bank plc into International Business Machines Corp., 144A, 8.5%, 6/09/25 | United States | 75,000 | 13,009,560 |
| Media 0.4% | | | |
| J.P. Morgan Structured Products BV into Comcast Corp., 144A, 8%, 9/12/24 | United States | 350,000 | 13,916,707 |

Franklin Income VIP Fund (continued)

| | Country | Shares | Value |
|---|---------------|---|---------------------------|
| Equity-Linked Securities (continued) | | | |
| Metals & Mining 0.4% | | | |
| °Mizuho Markets Cayman LP into Barrick Gold Corp., 144A, 9%, 7/01/25 | Canada | 303,000 | \$5,015,883 |
| °UBS AG into Newmont Corp., 144A, 11%, 1/16/25 | United States | 143,000 | 5,948,062 |
| | | | <u>10,963,945</u> |
| Oil, Gas & Consumable Fuels 0.4% | | | |
| °Citigroup Global Markets Holdings, Inc. into Exxon Mobil Corp., 144A, 9%, 3/12/25 | United States | 120,665 | 13,208,376 |
| Pharmaceuticals 0.3% | | | |
| °Mizuho Markets Cayman LP into Bristol-Myers Squibb Co., 144A, 9.5%, 5/08/25 | United States | 230,000 | 9,973,002 |
| Semiconductors & Semiconductor Equipment 2.5% | | | |
| °Citigroup Global Markets Holdings, Inc. into Intel Corp., 144A, 10%, 10/03/24 | United States | 364,780 | 11,883,360 |
| °Mizuho Markets Cayman LP into Microchip Technology, Inc., 144A, 10%, 11/12/24 | United States | 146,000 | 12,782,436 |
| °National Bank of Canada into Broadcom, Inc., 144A, 11.5%, 5/13/25 | United States | 8,000 | 11,117,465 |
| °Royal Bank of Canada into Texas Instruments, Inc., 144A, 8%, 6/11/25 | United States | 160,000 | 31,775,790 |
| °Wells Fargo Bank NA into Intel Corp., 144A, 11%, 2/14/25 | United States | 350,000 | 11,993,875 |
| | | | <u>79,552,926</u> |
| Software 0.8% | | | |
| °Barclays Bank plc into Oracle Corp., 144A, 8.5%, 2/05/25 | United States | 85,000 | 10,140,691 |
| °UBS AG into Oracle Corp., 144A, 9%, 6/10/25 | United States | 105,000 | 13,880,186 |
| | | | <u>24,020,877</u> |
| Technology Hardware, Storage & Peripherals 0.2% | | | |
| °UBS AG into Apple, Inc., 144A, 7%, 4/02/25 | United States | 39,000 | 7,404,054 |
| Total Equity-Linked Securities (Cost \$339,150,390) | | | <u>343,664,043</u> |
| Convertible Preferred Stocks 0.6% | | | |
| Chemicals 0.4% | | | |
| Albemarle Corp., 7.25% | United States | 230,000 | 10,731,800 |
| Financial Services 0.2% | | | |
| °FNMA, 5.375% | United States | 475 | 6,840,000 |
| Total Convertible Preferred Stocks (Cost \$48,856,042) | | | <u>17,571,800</u> |
| | | Principal Amount[†] | |
| Corporate Bonds 44.4% | | | |
| Aerospace & Defense 1.8% | | | |
| Boeing Co. (The), Senior Note, 5.04%, 5/01/27 | United States | 11,500,000 | 11,250,315 |
| Senior Note, 5.15%, 5/01/30 | United States | 25,000,000 | 24,014,577 |
| °TransDigm, Inc., Senior Secured Note, 144A, 6.75%, 8/15/28 | United States | 5,000,000 | 5,067,370 |
| Senior Secured Note, 144A, 6.625%, 3/01/32 | United States | 15,000,000 | 15,169,641 |
| | | | <u>55,501,903</u> |
| Automobile Components 0.8% | | | |
| °Domoch Debt Merger Sub, Inc., Senior Note, 144A, 6.625%, 10/15/29 | United States | 11,945,000 | 10,171,141 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ^f | Value |
|--|----------------|-------------------------------|--------------------|
| Corporate Bonds (continued) | | | |
| Automobile Components (continued) | | | |
| Goodyear Tire & Rubber Co. (The), Senior Note, 5%, 7/15/29 | United States | 15,000,000 | \$13,976,591 |
| | | | <u>24,147,732</u> |
| Automobiles 0.9% | | | |
| Ford Motor Co., | | | |
| Senior Bond, 3.25%, 2/12/32 | United States | 3,000,000 | 2,480,842 |
| Senior Bond, 6.1%, 8/19/32 | United States | 7,000,000 | 6,994,771 |
| General Motors Co., | | | |
| Senior Bond, 5.6%, 10/15/32 | United States | 5,000,000 | 5,003,865 |
| Senior Bond, 5.15%, 4/01/38 | United States | 13,500,000 | 12,427,544 |
| | | | <u>26,907,022</u> |
| Banks 4.1% | | | |
| Bank of America Corp., | | | |
| ^f AA, Junior Sub. Bond, 6.1% to 3/16/25, FRN thereafter, Perpetual | United States | 8,000,000 | 7,996,680 |
| ^f X, Junior Sub. Bond, 6.25% to 9/04/24, FRN thereafter, Perpetual | United States | 6,000,000 | 5,990,112 |
| Senior Bond, 3.419% to 12/19/27, FRN thereafter, 12/20/28 . . . | United States | 5,000,000 | 4,703,060 |
| Senior Bond, 4.571% to 4/26/32, FRN thereafter, 4/27/33 | United States | 6,500,000 | 6,132,334 |
| Barclays plc, | | | |
| Senior Bond, 5.746% to 8/08/32, FRN thereafter, 8/09/33 | United Kingdom | 15,000,000 | 14,969,344 |
| Senior Bond, 7.437% to 11/01/32, FRN thereafter, 11/02/33 | United Kingdom | 10,000,000 | 11,003,966 |
| Senior Note, 5.501% to 8/08/27, FRN thereafter, 8/09/28 | United Kingdom | 2,300,000 | 2,296,454 |
| Citigroup, Inc., Senior Bond, 6.27% to 11/16/32, FRN thereafter, 11/17/33 | United States | 24,500,000 | 25,671,353 |
| JPMorgan Chase & Co., | | | |
| ^f Junior Sub. Bond, 6.875% to 5/31/29, FRN thereafter, Perpetual | United States | 5,000,000 | 5,176,820 |
| Senior Bond, 6.254% to 10/22/33, FRN thereafter, 10/23/34 | United States | 3,000,000 | 3,183,483 |
| Senior Note, 5.04% to 1/22/27, FRN thereafter, 1/23/28 | United States | 1,500,000 | 1,492,170 |
| Morgan Stanley Bank NA, Senior Note, 4.952% to 1/13/27, FRN thereafter, 1/14/28 | United States | 3,500,000 | 3,474,415 |
| PNC Financial Services Group, Inc. (The), Senior Bond, 6.037% to 10/27/32, FRN thereafter, 10/28/33 | United States | 8,000,000 | 8,246,524 |
| Truist Financial Corp., Sub. Bond, 4.916% to 7/27/32, FRN thereafter, 7/28/33 | United States | 4,000,000 | 3,703,897 |
| US Bancorp, Senior Bond, 5.85% to 10/20/32, FRN thereafter, 10/21/33 | United States | 10,000,000 | 10,161,087 |
| Wells Fargo & Co., Senior Bond, 5.557% to 7/24/33, FRN thereafter, 7/25/34 | United States | 15,500,000 | 15,494,479 |
| | | | <u>129,696,178</u> |
| Biotechnology 0.3% | | | |
| Amgen, Inc., Senior Note, 5.25%, 3/02/30 | United States | 10,000,000 | 10,076,409 |
| Building Products 0.6% | | | |
| ^c Camelot Return Merger Sub, Inc., Senior Secured Note, 144A, 8.75%, 8/01/28 | United States | 6,900,000 | 6,772,533 |
| ^c EMRLD Borrower LP / Emerald Co-Issuer, Inc., Senior Secured Note, 144A, 6.625%, 12/15/30 | United States | 11,000,000 | 11,099,572 |
| | | | <u>17,872,105</u> |
| Capital Markets 1.5% | | | |
| Charles Schwab Corp. (The), Senior Note, 5.643% to 5/18/28, FRN thereafter, 5/19/29 | United States | 7,000,000 | 7,094,405 |
| Goldman Sachs Group, Inc. (The), Senior Bond, 6.561% to 10/23/33, FRN thereafter, 10/24/34 | United States | 17,000,000 | 18,283,357 |
| Morgan Stanley, | | | |
| Senior Bond, 6.342% to 10/17/32, FRN thereafter, 10/18/33 . . . | United States | 8,650,000 | 9,186,457 |
| Senior Bond, 5.25% to 4/20/33, FRN thereafter, 4/21/34 | United States | 5,700,000 | 5,613,440 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ¹ | Value |
|---|---------------|-------------------------------|-------------|
| Corporate Bonds (continued) | | | |
| Capital Markets (continued) | | | |
| Morgan Stanley, (continued) | | | |
| Senior Bond, 6.627% to 10/31/33, FRN thereafter, 11/01/34 | United States | 6,000,000 | \$6,482,611 |
| | | | 46,660,270 |
| Chemicals 1.7% | | | |
| Celanese US Holdings LLC, Senior Note, 6.165%, 7/15/27 | United States | 12,000,000 | 12,184,737 |
| ^c Consolidated Energy Finance SA, Senior Note, 144A, 6.5%, 5/15/26 | Switzerland | 8,000,000 | 7,747,144 |
| ^c International Flavors & Fragrances, Inc., Senior Bond, 144A, 2.3%, 11/01/30 | United States | 10,000,000 | 8,342,198 |
| ^c Rain Carbon, Inc., Senior Secured Note, 144A, 12.25%, 9/01/29 . . | United States | 7,300,000 | 7,865,991 |
| ^c SCIH Salt Holdings, Inc., Senior Note, 144A, 6.625%, 5/01/29 | United States | 10,000,000 | 9,417,583 |
| Senior Secured Note, 144A, 4.875%, 5/01/28 | United States | 8,888,000 | 8,277,942 |
| | | | 53,835,595 |
| Commercial Services & Supplies 0.5% | | | |
| ^c APX Group, Inc., Senior Note, 144A, 5.75%, 7/15/29 | United States | 15,000,000 | 14,402,097 |
| Communications Equipment 1.0% | | | |
| ^c CommScope Technologies LLC, | | | |
| Senior Bond, 144A, 6%, 6/15/25 | United States | 9,602,868 | 7,835,844 |
| Senior Bond, 144A, 5%, 3/15/27 | United States | 2,500,000 | 1,038,665 |
| ^c CommScope, Inc., | | | |
| Senior Note, 144A, 8.25%, 3/01/27 | United States | 20,000,000 | 9,511,150 |
| Senior Note, 144A, 7.125%, 7/01/28 | United States | 14,846,000 | 6,169,389 |
| Senior Secured Note, 144A, 6%, 3/01/26 | United States | 7,000,000 | 6,151,600 |
| | | | 30,706,648 |
| Consumer Finance 2.4% | | | |
| AerCap Ireland Capital DAC / AerCap Global Aviation Trust, Senior Bond, 5.3%, 1/19/34 | Ireland | 5,000,000 | 4,899,428 |
| Capital One Financial Corp., | | | |
| Senior Note, 4.927% to 5/09/27, FRN thereafter, 5/10/28 | United States | 10,398,356 | 10,253,606 |
| Senior Note, 3.273% to 2/28/29, FRN thereafter, 3/01/30 | United States | 7,000,000 | 6,320,647 |
| Senior Note, 5.247% to 7/25/29, FRN thereafter, 7/26/30 | United States | 6,070,000 | 5,965,265 |
| Sub. Bond, 4.2%, 10/29/25 | United States | 6,000,000 | 5,878,888 |
| Ford Motor Credit Co. LLC, | | | |
| Senior Note, 5.125%, 6/16/25 | United States | 20,000,000 | 19,855,282 |
| Senior Note, 4.95%, 5/28/27 | United States | 15,000,000 | 14,648,946 |
| Senior Note, 7.35%, 3/06/30 | United States | 1,500,000 | 1,588,275 |
| General Motors Financial Co., Inc., Senior Bond, 6.4%, 1/09/33 . . . | United States | 5,000,000 | 5,192,466 |
| | | | 74,602,803 |
| Consumer Staples Distribution & Retail 0.2% | | | |
| ^c 7-Eleven, Inc., Senior Bond, 144A, 1.8%, 2/10/31 | United States | 3,000,000 | 2,404,071 |
| Target Corp., Senior Bond, 4.5%, 9/15/32 | United States | 4,000,000 | 3,858,452 |
| | | | 6,262,523 |
| Containers & Packaging 1.5% | | | |
| ^c Ardagh Packaging Finance plc / Ardagh Holdings USA, Inc., | | | |
| Senior Note, 144A, 5.25%, 8/15/27 | United States | 10,700,000 | 6,675,856 |
| Senior Secured Note, 144A, 4.125%, 8/15/26 | United States | 10,000,000 | 8,691,016 |
| ^c Mauser Packaging Solutions Holding Co., | | | |
| Secured Note, 144A, 9.25%, 4/15/27 | United States | 16,932,000 | 16,963,697 |
| Senior Secured Note, 144A, 7.875%, 4/15/27 | United States | 11,000,000 | 11,233,653 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ¹ | Value |
|---|----------------|-------------------------------|-------------|
| Corporate Bonds (continued) | | | |
| Containers & Packaging (continued) | | | |
| ^c Pactiv Evergreen Group Issuer, Inc. / Pactiv Evergreen Group Issuer LLC, Senior Secured Note, 144A, 4%, 10/15/27 | United States | 5,000,000 | \$4,687,845 |
| | | | 48,252,067 |
| Diversified REITs 0.3% | | | |
| VICI Properties LP, Senior Bond, 5.125%, 5/15/32 | United States | 10,000,000 | 9,533,956 |
| Diversified Telecommunication Services 0.4% | | | |
| ^c CCO Holdings LLC / CCO Holdings Capital Corp., Senior Bond, 144A, 5.125%, 5/01/27 | United States | 3,000,000 | 2,882,868 |
| Senior Bond, 144A, 5%, 2/01/28 | United States | 10,000,000 | 9,357,265 |
| | | | 12,240,133 |
| Electric Utilities 1.3% | | | |
| NextEra Energy Capital Holdings, Inc., Senior Bond, 5.25%, 3/15/34 | United States | 8,000,000 | 7,864,092 |
| Pacific Gas and Electric Co., Senior Bond, 4.55%, 7/01/30 | United States | 5,000,000 | 4,740,825 |
| Southern Co. (The), Senior Bond, 5.7%, 10/15/32 | United States | 10,000,000 | 10,206,276 |
| ^c Vistra Operations Co. LLC, Senior Note, 144A, 4.375%, 5/01/29 | United States | 10,505,000 | 9,788,582 |
| Senior Note, 144A, 7.75%, 10/15/31 | United States | 4,700,000 | 4,898,227 |
| Senior Note, 144A, 6.875%, 4/15/32 | United States | 2,800,000 | 2,844,624 |
| | | | 40,342,626 |
| Electrical Equipment 0.2% | | | |
| Regal Rexnord Corp., Senior Note, 6.4%, 4/15/33 | United States | 5,000,000 | 5,118,936 |
| Energy Equipment & Services 0.5% | | | |
| ^c Weatherford International Ltd., Senior Note, 144A, 8.625%, 4/30/30 | United States | 14,500,000 | 15,037,617 |
| Entertainment 0.7% | | | |
| Netflix, Inc., Senior Bond, 4.875%, 4/15/28 | United States | 22,000,000 | 21,893,626 |
| Food Products 0.4% | | | |
| JBS USA Holding Lux SARL / JBS USA Food Co. / JBS Lux Co. SARL, Senior Note, 5.75%, 4/01/33 | United States | 8,000,000 | 7,996,530 |
| Pilgrim's Pride Corp., Senior Bond, 6.25%, 7/01/33 | United States | 4,000,000 | 4,079,612 |
| | | | 12,076,142 |
| Ground Transportation 0.4% | | | |
| ^c Ashtead Capital, Inc., Senior Note, 144A, 4.25%, 11/01/29 | United Kingdom | 4,500,000 | 4,222,753 |
| Union Pacific Corp., Senior Bond, 4.5%, 1/20/33 | United States | 8,000,000 | 7,710,236 |
| | | | 11,932,989 |
| Health Care Equipment & Supplies 1.0% | | | |
| ^c Bausch + Lomb Corp., Senior Secured Note, 144A, 8.375%, 10/01/28 | United States | 4,500,000 | 4,612,500 |
| GE HealthCare Technologies, Inc., Senior Note, 5.905%, 11/22/32 | United States | 7,500,000 | 7,742,998 |
| ^c Medline Borrower LP, Senior Note, 144A, 5.25%, 10/01/29 | United States | 4,000,000 | 3,820,407 |
| Senior Secured Note, 144A, 3.875%, 4/01/29 | United States | 17,000,000 | 15,668,300 |
| | | | 31,844,205 |
| Health Care Providers & Services 6.5% | | | |
| Centene Corp., Senior Note, 4.625%, 12/15/29 | United States | 10,000,000 | 9,465,552 |
| ^c CHS/Community Health Systems, Inc., Secured Note, 144A, 6.875%, 4/15/29 | United States | 39,750,000 | 30,444,855 |
| Senior Note, 144A, 6.875%, 4/01/28 | United States | 25,000,000 | 18,580,512 |
| Senior Secured Note, 144A, 8%, 12/15/27 | United States | 10,000,000 | 9,924,606 |
| Senior Secured Note, 144A, 10.875%, 1/15/32 | United States | 25,500,000 | 26,571,932 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ^a | Value |
|---|---------------|----------------------------------|-------------|
| Corporate Bonds (continued) | | | |
| Health Care Providers & Services (continued) | | | |
| CVS Health Corp., Senior Bond, 5.25%, 2/21/33 | United States | 5,000,000 | \$4,884,594 |
| ^c DaVita, Inc., | | | |
| Senior Bond, 144A, 3.75%, 2/15/31 | United States | 2,500,000 | 2,134,935 |
| Senior Note, 144A, 4.625%, 6/01/30 | United States | 20,000,000 | 18,089,388 |
| HCA, Inc., Senior Bond, 5.5%, 6/01/33 | United States | 10,000,000 | 9,921,956 |
| ^c MPH Acquisition Holdings LLC, | | | |
| Senior Note, 144A, 5.75%, 11/01/28 | United States | 5,750,000 | 3,100,026 |
| Senior Secured Note, 144A, 5.5%, 9/01/28 | United States | 8,890,000 | 6,721,848 |
| Tenet Healthcare Corp., | | | |
| Secured Note, 6.25%, 2/01/27 | United States | 24,031,000 | 24,035,902 |
| Senior Note, 6.125%, 10/01/28 | United States | 19,400,000 | 19,317,637 |
| Senior Secured Note, 6.125%, 6/15/30 | United States | 12,500,000 | 12,431,220 |
| UnitedHealth Group, Inc., Senior Bond, 5.35%, 2/15/33 | United States | 10,000,000 | 10,137,340 |
| | | | 205,762,303 |
| Hotels, Restaurants & Leisure 2.8% | | | |
| ^c Caesars Entertainment, Inc., | | | |
| ^g Senior Secured Note, 144A, 6.25%, 7/01/25 | United States | 15,000,000 | 15,000,000 |
| Senior Secured Note, 144A, 7%, 2/15/30 | United States | 6,250,000 | 6,389,412 |
| ^c Carnival Corp., Senior Note, 144A, 7.625%, 3/01/26 | United States | 20,000,000 | 20,211,800 |
| Expedia Group, Inc., Senior Note, 5%, 2/15/26 | United States | 7,000,000 | 6,950,781 |
| ^c Fertitta Entertainment LLC / Fertitta Entertainment Finance Co., Inc., | | | |
| Senior Note, 144A, 6.75%, 1/15/30 | United States | 4,100,000 | 3,603,681 |
| Senior Secured Note, 144A, 4.625%, 1/15/29 | United States | 7,000,000 | 6,380,086 |
| ^c Penn Entertainment, Inc., Senior Note, 144A, 4.125%, 7/01/29 | United States | 5,500,000 | 4,721,285 |
| ^c Wynn Las Vegas LLC / Wynn Las Vegas Capital Corp., | | | |
| Senior Bond, 144A, 5.5%, 3/01/25 | United States | 18,698,000 | 18,688,606 |
| Senior Bond, 144A, 5.25%, 5/15/27 | United States | 6,000,000 | 5,856,454 |
| | | | 87,802,105 |
| Independent Power and Renewable Electricity Producers 0.7% | | | |
| ^c Calpine Corp., | | | |
| Senior Note, 144A, 5.125%, 3/15/28 | United States | 10,000,000 | 9,624,986 |
| Senior Secured Note, 144A, 4.5%, 2/15/28 | United States | 5,000,000 | 4,754,586 |
| ^c Vistra Corp., Junior Sub. Bond, 144A, 7% to 12/14/26, FRN thereafter, Perpetual | United States | 7,800,000 | 7,739,676 |
| | | | 22,119,248 |
| Media 0.8% | | | |
| ^c Clear Channel Outdoor Holdings, Inc., | | | |
| Senior Note, 144A, 7.75%, 4/15/28 | United States | 2,800,000 | 2,453,204 |
| Senior Note, 144A, 7.5%, 6/01/29 | United States | 7,000,000 | 5,856,376 |
| Senior Secured Note, 144A, 5.125%, 8/15/27 | United States | 6,000,000 | 5,735,669 |
| ^c Stagwell Global LLC, Senior Note, 144A, 5.625%, 8/15/29 | United States | 5,000,000 | 4,622,190 |
| ^c Univision Communications, Inc., Senior Secured Note, 144A, 6.625%, 6/01/27 | United States | 8,500,000 | 8,145,690 |
| | | | 26,813,129 |
| Metals & Mining 1.2% | | | |
| ^c Alcoa Nederland Holding BV, Senior Note, 144A, 4.125%, 3/31/29. | United States | 8,500,000 | 7,892,483 |
| ArcelorMittal SA, Senior Bond, 6.8%, 11/29/32 | Luxembourg | 12,000,000 | 12,650,035 |
| ^c FMG Resources August 2006 Pty. Ltd., | | | |
| Senior Bond, 144A, 4.375%, 4/01/31 | Australia | 6,000,000 | 5,370,202 |
| Senior Note, 144A, 5.875%, 4/15/30 | Australia | 5,000,000 | 4,889,897 |
| Freeport-McMoRan, Inc., Senior Bond, 4.625%, 8/01/30 | United States | 8,000,000 | 7,706,692 |
| | | | 38,509,309 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ¹ | Value |
|---|---------------|-------------------------------|--------------|
| Corporate Bonds (continued) | | | |
| Oil, Gas & Consumable Fuels 2.0% | | | |
| °Calumet Specialty Products Partners LP / Calumet Finance Corp., Senior Note, 144A, 11%, 4/15/25 | United States | 13,186,000 | \$13,261,173 |
| Senior Note, 144A, 8.125%, 1/15/27 | United States | 8,820,000 | 8,324,528 |
| Senior Secured Note, 144A, 9.25%, 7/15/29 | United States | 5,500,000 | 5,610,000 |
| °Chesapeake Energy Corp., Senior Note, 144A, 5.875%, 2/01/29 | United States | 9,500,000 | 9,410,735 |
| Kinder Morgan, Inc., Senior Bond, 5.4%, 2/01/34 | United States | 8,000,000 | 7,880,628 |
| Occidental Petroleum Corp., Senior Bond, 6.625%, 9/01/30 | United States | 6,000,000 | 6,296,076 |
| Williams Cos., Inc. (The), Senior Bond, 3.5%, 11/15/30 | United States | 7,053,000 | 6,396,223 |
| Senior Bond, 5.65%, 3/15/33 | United States | 5,000,000 | 5,048,273 |
| | | | 62,227,636 |
| Passenger Airlines 1.2% | | | |
| °American Airlines, Inc., Senior Secured Note, 144A, 8.5%, 5/15/29 | United States | 5,000,000 | 5,197,960 |
| °American Airlines, Inc. / AAdvantage Loyalty IP Ltd., Senior Secured Note, 144A, 5.5%, 4/20/26 | United States | 10,000,000 | 9,920,358 |
| °Delta Air Lines, Inc. / SkyMiles IP Ltd., Senior Secured Note, 144A, 4.75%, 10/20/28 | United States | 13,687,000 | 13,335,198 |
| °United Airlines, Inc., Senior Secured Note, 144A, 4.625%, 4/15/29 | United States | 8,750,000 | 8,156,095 |
| | | | 36,609,611 |
| Personal Care Products 0.2% | | | |
| Haleon US Capital LLC, Senior Note, 3.625%, 3/24/32 | United States | 8,500,000 | 7,618,346 |
| Pharmaceuticals 1.6% | | | |
| °1375209 BC Ltd., Senior Secured Note, 144A, 9%, 1/30/28 | Canada | 6,374,000 | 6,137,088 |
| °Bausch Health Cos., Inc., Senior Secured Note, 144A, 6.125%, 2/01/27 | United States | 12,000,000 | 10,003,500 |
| Senior Secured Note, 144A, 11%, 9/30/28 | United States | 10,000,000 | 8,925,000 |
| °Endo Finance Holdings, Inc., Senior Secured Note, 144A, 8.5%, 4/15/31 | United States | 4,000,000 | 4,132,908 |
| °Teva Pharmaceutical Finance Netherlands III BV, Senior Note, 6.75%, 3/01/28 | Israel | 10,000,000 | 10,245,800 |
| Utah Acquisition Sub, Inc., Senior Note, 3.95%, 6/15/26 | United States | 10,000,000 | 9,700,162 |
| | | | 49,144,458 |
| Semiconductors & Semiconductor Equipment 0.8% | | | |
| °Broadcom, Inc., Senior Bond, 144A, 2.45%, 2/15/31 | United States | 5,000,000 | 4,212,468 |
| Senior Bond, 144A, 4.15%, 4/15/32 | United States | 10,000,000 | 9,230,757 |
| Micron Technology, Inc., Senior Bond, 5.875%, 2/09/33 | United States | 4,000,000 | 4,088,206 |
| Senior Note, 6.75%, 11/01/29 | United States | 8,000,000 | 8,511,569 |
| | | | 26,043,000 |
| Software 0.9% | | | |
| Oracle Corp., Senior Bond, 2.875%, 3/25/31 | United States | 15,000,000 | 12,957,681 |
| Senior Bond, 6.25%, 11/09/32 | United States | 6,750,000 | 7,147,707 |
| Workday, Inc., Senior Bond, 3.8%, 4/01/32 | United States | 10,000,000 | 8,989,878 |
| | | | 29,095,266 |
| Specialized REITs 0.5% | | | |
| American Tower Corp., Senior Bond, 2.9%, 1/15/30 | United States | 8,000,000 | 7,055,633 |
| Senior Bond, 5.65%, 3/15/33 | United States | 5,000,000 | 5,033,777 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount ^a | Value |
|---|----------------|-------------------------------|----------------------|
| Corporate Bonds (continued) | | | |
| Specialized REITs (continued) | | | |
| Crown Castle, Inc., Senior Bond, 3.3%, 7/01/30 | United States | 5,000,000 | \$4,457,822 |
| | | | 16,547,232 |
| Specialty Retail 0.4% | | | |
| Lowe's Cos., Inc., Senior Bond, 5%, 4/15/33 | United States | 13,000,000 | 12,807,042 |
| Technology Hardware, Storage & Peripherals 0.3% | | | |
| ⁹ HP, Inc., Senior Bond, 5.5%, 1/15/33 | United States | 10,000,000 | 10,071,569 |
| Tobacco 0.9% | | | |
| BAT Capital Corp., | | | |
| Senior Bond, 6.421%, 8/02/33 | United Kingdom | 6,000,000 | 6,275,851 |
| Senior Note, 3.557%, 8/15/27 | United Kingdom | 15,000,000 | 14,252,226 |
| Philip Morris International, Inc., Senior Note, 5.125%, 2/15/30 | United States | 9,000,000 | 8,970,995 |
| | | | 29,499,072 |
| Trading Companies & Distributors 0.6% | | | |
| United Rentals North America, Inc., | | | |
| Senior Bond, 4.875%, 1/15/28 | United States | 12,800,000 | 12,416,996 |
| ^c Senior Secured Note, 144A, 6%, 12/15/29 | United States | 8,000,000 | 8,042,472 |
| | | | 20,459,468 |
| Wireless Telecommunication Services 0.5% | | | |
| Sprint LLC, Senior Note, 7.625%, 3/01/26 | United States | 7,500,000 | 7,713,300 |
| T-Mobile USA, Inc., Senior Bond, 5.2%, 1/15/33 | United States | 7,500,000 | 7,423,558 |
| | | | 15,136,858 |
| Total Corporate Bonds (Cost \$1,412,803,108) | | | 1,395,209,234 |
| U.S. Government and Agency Securities 11.0% | | | |
| U.S. Treasury Bonds, | | | |
| 3.375%, 8/15/42 | United States | 15,000,000 | 12,673,828 |
| 3%, 8/15/52 | United States | 40,000,000 | 30,100,000 |
| 3.625%, 5/15/53 | United States | 42,500,000 | 36,173,144 |
| 4.125%, 8/15/53 | United States | 21,000,000 | 19,560,352 |
| U.S. Treasury Notes, | | | |
| 4.375%, 10/31/24 | United States | 30,000,000 | 29,897,366 |
| 4.5%, 3/31/26 | United States | 35,000,000 | 34,819,531 |
| 2.875%, 5/15/32 | United States | 130,000,000 | 117,149,804 |
| 2.75%, 8/15/32 | United States | 75,000,000 | 66,751,465 |
| Total U.S. Government and Agency Securities (Cost \$370,124,117) | | | 347,125,490 |
| Asset-Backed Securities 0.4% | | | |
| Passenger Airlines 0.4% | | | |
| United Airlines Pass-Through Trust, | | | |
| 2020-1, A, 5.875%, 10/15/27 | United States | 5,509,583 | 5,531,166 |
| 2023-1, A, 5.8%, 1/15/36 | United States | 6,300,000 | 6,419,094 |
| | | | 11,950,260 |
| Total Asset-Backed Securities (Cost \$11,809,583) | | | 11,950,260 |
| Mortgage-Backed Securities 2.1% | | | |
| Federal Home Loan Mortgage Corp. (FHLMC) Fixed Rate 1.1% | | | |
| FHLMC Pool, 30 Year, 5%, 5/01/53 | United States | 16,930,041 | 16,371,838 |
| FHLMC Pool, 30 Year, 5.5%, 7/01/53 - 11/01/53 | United States | 17,126,462 | 16,901,795 |
| | | | 33,273,633 |

Franklin Income VIP Fund (continued)

| | Country | Principal Amount [†] | Value |
|--|------------------------|---------------------------------|------------------------|
| Mortgage-Backed Securities (continued) | | | |
| Federal National Mortgage Association (FNMA) Fixed Rate 1.0% | | | |
| FNMA, 30 Year, 4%, 8/01/49 | United States | 1,380,398 | \$1,287,563 |
| FNMA, 30 Year, 5%, 5/01/53 | United States | 16,933,269 | 16,374,129 |
| FNMA, 30 Year, 5%, 11/01/53 | United States | 14,331,001 | 13,857,780 |
| | | | 31,519,472 |
| Total Mortgage-Backed Securities (Cost \$65,277,844) | | | 64,793,105 |
| | | Shares | |
| Escrows and Litigation Trusts 0.0% | | | |
| ^{b,h} Endo, Inc., Escrow Account | United States | 4,500,000 | — |
| ^h Par Pharmaceutical, Inc., Escrow Account | United States | 8,429,000 | — |
| Total Escrows and Litigation Trusts (Cost \$—) | | | — |
| Total Long Term Investments (Cost \$2,934,035,881) | | | 3,056,184,269 |
| Short Term Investments 2.8% | | | |
| | Country | Shares | Value |
| Money Market Funds 2.4% | | | |
| ^{i,j} Institutional Fiduciary Trust - Money Market Portfolio, 4.972% | United States | 76,409,655 | 76,409,655 |
| Total Money Market Funds (Cost \$76,409,655) | | | 76,409,655 |
| ^kInvestments from Cash Collateral Received for Loaned Securities 0.4% | | | |
| Money Market Funds 0.4% | | | |
| ^{i,j} Institutional Fiduciary Trust - Money Market Portfolio, 4.972% | United States | 12,298,000 | 12,298,000 |
| Total Investments from Cash Collateral Received for Loaned Securities (Cost \$12,298,000) | | | 12,298,000 |
| Total Short Term Investments (Cost \$88,707,655) | | | 88,707,655 |
| Total Investments (Cost \$3,022,743,536) 100.0% | | | \$3,144,891,924 |
| Options Written (0.0)%[†] | | | (1,326,000) |
| Other Assets, less Liabilities 0.0%[†] | | | 1,631,477 |
| Net Assets 100.0% | | | \$3,145,197,401 |
| | Number of Contracts | Notional Amount [#] | |
| ^lOptions Written (0.0)%[†] | | | |
| Calls - Exchange-Traded | | | |
| Equity Options | | | |
| AbbVie, Inc., September Strike Price \$185.00, Expires 9/20/24 | 1,000 | 17,152,000 | (146,000) |
| Analog Devices, Inc., August Strike Price \$250.00, Expires 8/16/24 | 800 | 18,260,800 | (148,800) |
| Charles Schwab Corp. (The), August Strike Price \$80.00, Expires 8/16/24 | 1,000 | 7,369,000 | (70,000) |
| Morgan Stanley, September Strike Price \$105.00, Expires 9/20/24 | 2,200 | 21,381,800 | (277,200) |
| | | | (642,000) |

Franklin Income VIP Fund (continued)

| | Number of Contracts | Notional Amount [#] | Value |
|---|------------------------|---------------------------------|-----------------------|
| Options Written (continued) | | | |
| Puts - Exchange-Traded | | | |
| Equity Options | | | |
| BlackRock, Inc., August Strike Price \$720.00, Expires 8/16/24 | 300 | 23,619,600 | \$(123,000) |
| Broadcom, Inc., July Strike Price \$1,535.00, Expires 7/05/24 | 250 | 40,138,250 | (137,500) |
| Dell Technologies, Inc., August Strike Price \$115.00, Expires 8/16/24 | 1,000 | 13,791,000 | (155,000) |
| Micron Technology, Inc., August Strike Price \$115.00, Expires 8/16/24 | 1,500 | 19,729,500 | (268,500) |
| | | | <u>(684,000)</u> |
| Total Options Written (Premiums received \$1,352,788) | | | <u>\$ (1,326,000)</u> |

[#]Notional amount is the number of contracts multiplied by contract size, and may be multiplied by the underlying price. May include currency units, bushels, shares, pounds, barrels or other units. Currency units are stated in U.S. dollars unless otherwise indicated.

[†]The principal amount is stated in U.S. dollars unless otherwise indicated.

[†]Rounds to less than 0.1% of net assets.

^aA portion or all of the security is held in connection with written option contracts open at period end.

^bNon-income producing.

^cSecurity was purchased pursuant to Rule 144A or Regulation S under the Securities Act of 1933. 144A securities 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. Regulation S securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. At June 30, 2024, the aggregate value of these securities was \$991,339,749, representing 31.5% of net assets.

^dSee Note 1(e) regarding equity-linked securities.

^eA portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

^fPerpetual security with no stated maturity date.

^gA portion or all of the security is on loan at June 30, 2024. See Note 1(f).

^hFair valued using significant unobservable inputs. See Note 9 regarding fair value measurements.

ⁱSee Note 3(e) regarding investments in affiliated management investment companies.

^jThe rate shown is the annualized seven-day effective yield at period end.

^kSee Note 1(f) regarding securities on loan.

^lSee Note 1(d) regarding written options.

At June 30, 2024, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

| Description | Type | Number of Contracts | Notional Amount [*] | Expiration Date | Value/ Unrealized Appreciation (Depreciation) |
|--|------|------------------------|---------------------------------|--------------------|--|
| Interest rate contracts | | | | | |
| U.S. Treasury Ultra Bonds | Long | 350 | \$43,870,312 | 9/19/24 | \$492,265 |
| Total Futures Contracts | | | | | <u>\$492,265</u> |

^{*}As of period end.

See Note 7 regarding other derivative information.

See Abbreviations on page 29.

Statement of Assets and Liabilities

June 30, 2024 (unaudited)

**Franklin Income
VIP Fund**

Assets:

Investments in securities:

| | |
|---|-----------------|
| Cost - Unaffiliated issuers | \$2,934,035,881 |
| Cost - Non-controlled affiliates (Note 3e) | 88,707,655 |
| Value - Unaffiliated issuers (Includes securities loaned of \$11,667,302) | \$3,056,184,269 |
| Value - Non-controlled affiliates (Note 3e) | 88,707,655 |
| Cash | 461,978 |

Receivables:

| | |
|---|----------------------|
| Investment securities sold | 1,538,923 |
| Capital shares sold | 1,558,145 |
| Dividends and interest | 28,512,096 |
| European Union tax reclaims (Note 1g) | 1,925,432 |
| Deposits with brokers for: | |
| Futures contracts | 1,925,000 |
| Total assets | 3,180,813,498 |

Liabilities:

Payables:

| | |
|---|------------------------|
| Investment securities purchased | 17,875,360 |
| Capital shares redeemed | 1,689,771 |
| Management fees | 1,152,100 |
| Distribution fees | 613,473 |
| Trustees' fees and expenses | 5,917 |
| Variation margin on futures contracts | 579,688 |
| Options written, at value (premiums received \$1,352,788) | 1,326,000 |
| Payable upon return of securities loaned (Note 1f) | 12,298,000 |
| Accrued expenses and other liabilities | 75,788 |
| Total liabilities | 35,616,097 |
| Net assets, at value | \$3,145,197,401 |

Net assets consist of:

| | |
|---|------------------------|
| Paid-in capital | \$2,954,109,910 |
| Total distributable earnings (losses) | 191,087,491 |
| Net assets, at value | \$3,145,197,401 |

**Franklin Income
VIP Fund**

Class 1:

| | |
|---|---------------|
| Net assets, at value | \$297,463,755 |
| Shares outstanding | 20,456,697 |
| Net asset value and maximum offering price per share ^a | \$14.54 |

Class 2:

| | |
|---|-----------------|
| Net assets, at value | \$2,492,575,706 |
| Shares outstanding | 180,324,445 |
| Net asset value and maximum offering price per share ^a | \$13.82 |

Class 4:

| | |
|---|---------------|
| Net assets, at value | \$355,157,940 |
| Shares outstanding | 24,810,704 |
| Net asset value and maximum offering price per share ^a | \$14.32 |

^aNet asset value per share may not recalculate due to rounding.

Statement of Operations

for the six months ended June 30, 2024 (unaudited)

| | Franklin Income VIP Fund |
|---|-------------------------------------|
| Investment income: | |
| Dividends: (net of foreign taxes of \$61,505) | |
| Unaffiliated issuers | \$15,527,745 |
| Non-controlled affiliates (Note 3e) | 1,725,317 |
| Interest: | |
| Unaffiliated issuers | 60,052,611 |
| Income from securities loaned: | |
| Unaffiliated entities (net of fees and rebates) | (103,485) |
| Non-controlled affiliates (Note 3e) | 135,760 |
| Other income (Note 1g) | 6,366 |
| Total investment income | <u>77,344,314</u> |
| Expenses: | |
| Management fees (Note 3a) | 7,157,187 |
| Distribution fees: (Note 3c) | |
| Class 2 | 3,107,917 |
| Class 4 | 610,041 |
| Custodian fees | 9,161 |
| Reports to shareholders fees | 14,724 |
| Professional fees | 40,239 |
| Trustees' fees and expenses | 19,696 |
| Other | 50,788 |
| Total expenses | <u>11,009,753</u> |
| Expenses waived/paid by affiliates (Note 3e) | <u>(122,800)</u> |
| Net expenses | <u>10,886,953</u> |
| Net investment income | <u>66,457,361</u> |
| Realized and unrealized gains (losses): | |
| Net realized gain (loss) from: | |
| Investments: | |
| Unaffiliated issuers | 24,353,993 |
| Written options | 123,830 |
| Futures contracts | 1,191,330 |
| Net realized gain (loss) | <u>25,669,153</u> |
| Net change in unrealized appreciation (depreciation) on: | |
| Investments: | |
| Unaffiliated issuers | 14,168,108 |
| Translation of other assets and liabilities denominated in foreign currencies | (63,489) |
| Written options | 201,958 |
| Futures contracts | (7,106,480) |
| Net change in unrealized appreciation (depreciation) | <u>7,200,097</u> |
| Net realized and unrealized gain (loss) | <u>32,869,250</u> |
| Net increase (decrease) in net assets resulting from operations | <u>\$99,326,611</u> |

Statements of Changes in Net Assets

| | Franklin Income VIP Fund | |
|---|--|---------------------------------|
| | Six Months Ended June 30, 2024 (unaudited) | Year Ended December 31, 2023 |
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income | \$66,457,361 | \$128,052,802 |
| Net realized gain (loss) | 25,669,153 | 43,518,115 |
| Net change in unrealized appreciation (depreciation) | 7,200,097 | 81,603,814 |
| Net increase (decrease) in net assets resulting from operations | 99,326,611 | 253,174,731 |
| Distributions to shareholders: | | |
| Class 1 | (16,729,510) | (30,336,593) |
| Class 2 | (141,660,043) | (289,624,489) |
| Class 4 | (19,161,630) | (36,680,873) |
| Total distributions to shareholders | (177,551,183) | (356,641,955) |
| Capital share transactions: (Note 2) | | |
| Class 1 | 13,258,170 | 79,739,805 |
| Class 2 | 9,323,855 | 86,181,715 |
| Class 4 | 10,641,743 | 36,884,838 |
| Total capital share transactions | 33,223,768 | 202,806,358 |
| Net increase (decrease) in net assets | (45,000,804) | 99,339,134 |
| Net assets: | | |
| Beginning of period | 3,190,198,205 | 3,090,859,071 |
| End of period | \$3,145,197,401 | \$3,190,198,205 |

Notes to Financial Statements (unaudited)

Franklin Income 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. The Trust follows the accounting and reporting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946, Financial Services – Investment Companies (ASC 946) and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP), including, but not limited to, ASC 946. Franklin Income 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 Board has designated the Fund's investment manager as the valuation designee and has responsibility for oversight of valuation. The investment manager is assisted by the Fund's administrator in performing this responsibility, 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. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

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

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, 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

Franklin Income VIP Fund (continued)**1. Organization and Significant Accounting Policies**
(continued)**a. Financial Instrument Valuation** (continued)

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.

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. Events can 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, an independent pricing service may be used to adjust the value of the Fund's portfolio securities to the latest indications of fair value at 4 p.m. Eastern time.

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 security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent

value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

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

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

c. Securities Purchased on a When-Issued, Forward Commitment or Delayed Delivery Basis

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

d. Derivative Financial Instruments

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

Franklin Income VIP Fund (continued)

1. Organization and Significant Accounting Policies

(continued)

d. Derivative Financial Instruments (continued)

and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

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.

The Fund entered into exchange traded futures contracts primarily to manage and/or gain exposure to interest rate risk. 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 purchased or wrote exchange traded option contracts primarily to manage and/or gain exposure to equity price/equity volatility risk. An option is a contract entitling the holder to purchase or sell a specific amount of shares or units of an asset or notional amount of a swap (swaption), at a specified price. When an option is purchased or written, an amount equal to the premium paid or received is recorded as an asset or liability, respectively. Upon exercise of an option, the acquisition cost or sales proceeds of the underlying investment is adjusted by any premium received or paid. Upon expiration of an option, any premium received or paid is recorded as a realized gain or loss. Upon closing an option other than through expiration or exercise, the difference between the premium received or paid and the cost to close the position is recorded as a realized gain or loss.

See Note 7 regarding other derivative information.

e. Equity-Linked Securities

The Fund invests in equity-linked securities. Equity-linked securities are hybrid financial instruments that generally combine both debt and equity characteristics into a single note form. Income received from equity-linked securities is recorded as realized gains in the Statement of Operations and may be based on the performance of an underlying equity security, an equity index, or an option position.

The risks of investing in equity-linked securities include unfavorable price movements in the underlying security and the credit risk of the issuing financial institution. There may be no guarantee of a return of principal with equity-linked securities and the appreciation potential may be limited. Equity-linked securities may be more volatile and less liquid than other investments held by the Fund.

f. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives collateral in the form of cash and/or U.S. Government and Agency securities against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. Any cash collateral received 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 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 any cash 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.

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

Franklin Income VIP Fund (continued)**1. Organization and Significant Accounting Policies**
(continued)**g. Income and Deferred Taxes** (continued)

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). 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. Any fees associated with these filings are reflected in other expenses in the Statement of Operations. 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 will 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 June 30, 2024, 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.

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 (including interest income from payment-in-kind securities, if any) and estimated expenses are accrued

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

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

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

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.

Franklin Income VIP Fund (continued)

1. Organization and Significant Accounting Policies
 (continued)

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.

2. Shares of Beneficial Interest

At June 30, 2024, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

| | Six Months Ended June 30, 2024 | | Year Ended December 31, 2023 | |
|--|-----------------------------------|---------------|---------------------------------|---------------|
| | Shares | Amount | Shares | Amount |
| Class 1 Shares: | | | | |
| Shares sold | 710,931 | \$10,648,076 | 4,435,576 | \$69,037,803 |
| Shares issued in reinvestment of distributions | 1,152,170 | 16,729,510 | 2,131,876 | 30,336,593 |
| Shares redeemed | (943,605) | (14,119,416) | (1,343,537) | (19,634,591) |
| Net increase (decrease) | 919,496 | \$13,258,170 | 5,223,915 | \$79,739,805 |
| Class 2 Shares: | | | | |
| Shares sold | 5,012,390 | \$71,527,566 | 15,216,333 | \$219,586,688 |
| Shares issued in reinvestment of distributions | 10,265,220 | 141,660,043 | 21,342,998 | 289,624,489 |
| Shares redeemed | (14,280,341) | (203,863,754) | (30,047,143) | (423,029,462) |
| Net increase (decrease) | 997,269 | \$9,323,855 | 6,512,188 | \$86,181,715 |
| Class 4 Shares: | | | | |
| Shares sold | 1,369,076 | \$20,211,567 | 3,250,508 | \$47,488,287 |
| Shares issued in reinvestment of distributions | 1,339,974 | 19,161,630 | 2,614,460 | 36,680,873 |
| Shares redeemed | (1,949,004) | (28,731,454) | (3,259,803) | (47,284,322) |
| Net increase (decrease) | 760,046 | \$10,641,743 | 2,605,165 | \$36,884,838 |

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

Franklin Income VIP Fund (continued)**3. Transactions with Affiliates** (continued)**a. Management Fees**

The Fund pays an investment management fee, calculated daily and paid monthly, to Advisers based on the average daily net assets of the Fund as follows:

| Annualized Fee Rate | Net Assets |
|----------------------------|---|
| 0.625% | Up to and including \$100 million |
| 0.500% | Over \$100 million, up to and including \$250 million |
| 0.450% | Over \$250 million, up to and including \$7.5 billion |
| 0.440% | Over \$7.5 billion, up to and including \$10 billion |
| 0.430% | Over \$10 billion, up to and including \$12.5 billion |
| 0.420% | Over \$12.5 billion, up to and including \$15 billion |
| 0.400% | In excess of \$15 billion |

For the period ended June 30, 2024, the annualized gross effective investment management fee rate was 0.458% of the Fund's average daily net assets.

b. Administrative Fees

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

c. Distribution Fees

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

d. Transfer Agent Fees

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

e. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies. As defined in the 1940 Act, an investment is deemed to be a "Controlled Affiliate" of a fund when a fund owns, either directly or indirectly, 25% or more of the affiliated fund's outstanding shares or has the power to exercise control over management or policies of such fund. The Fund does not invest for purposes of 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 period ended June 30, 2024, the Fund held investments in affiliated management investment companies as follows:

Franklin Income VIP Fund (continued)

3. Transactions with Affiliates (continued)

e. Investments in Affiliated Management Investment Companies (continued)

| | Value at Beginning of Period | Purchases | Sales | Realized Gain (Loss) | Net Change in Unrealized Appreciation (Depreciation) | Value at End of Period | Number of Shares Held at End of Period | Investment Income |
|---|------------------------------------|----------------------|------------------------|-------------------------|---|------------------------------|---|-------------------------------------|
| Franklin Income VIP Fund | | | | | | | | |
| Non-Controlled Affiliates | | | | | | | | |
| | | | | | | | | Dividends |
| Institutional Fiduciary Trust - Money Market Portfolio, 4.972% | \$104,664,771 | \$443,069,108 | \$(471,324,224) | \$— | \$— | \$76,409,655 | 76,409,655 | \$1,725,317 |
| Non-Controlled Affiliates | | | | | | | | |
| | | | | | | | | Income from securities loaned |
| Institutional Fiduciary Trust - Money Market Portfolio, 4.972% | \$— | \$44,147,000 | \$(31,849,000) | \$— | \$— | \$12,298,000 | 12,298,000 | \$135,760 |
| Total Affiliated Securities . . . | \$104,664,771 | \$487,216,108 | \$(503,173,224) | \$— | \$— | \$88,707,655 | | \$1,861,077 |

4. Income Taxes

At June 30, 2024, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

| | |
|--|------------------------|
| Cost of investments | <u>\$3,032,979,617</u> |
| Unrealized appreciation | \$257,194,593 |
| Unrealized depreciation | (146,116,021) |
| Net unrealized appreciation (depreciation) | <u>\$111,078,572</u> |

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of EU reclaims, derivative financial instruments and equity-linked securities.

5. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2024, aggregated \$620,217,641 and \$646,361,320, respectively.

At June 30, 2024, in connection with securities lending transactions, the Fund loaned corporate bonds and received \$12,298,000 of cash collateral. The gross amount of recognized liability for such transactions is included in payable upon return of securities loaned in the Statement of Assets and Liabilities. The agreements can be terminated at any time.

6. Credit Risk

At June 30, 2024, the Fund had 21.9% of its portfolio invested in high yield or other securities rated below investment grade and unrated securities. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

Franklin Income VIP Fund (continued)

7. Other Derivative Information

At June 30, 2024, 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 |
| Franklin Income VIP Fund | | | | |
| Interest rate contracts | Variation margin on futures contracts | \$492,265 ^a | Variation margin on futures contracts | \$— |
| Equity contracts | Investments in securities, at value | — | Options written, at value | 1,326,000 |
| Total | | <u>\$492,265</u> | | <u>\$1,326,000</u> |

^aThis amount reflects the cumulative appreciation (depreciation) of futures contracts as reported in the Schedule of Investments. Only the variation margin receivable/payable at period 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 period ended June 30, 2024, the effect of derivative contracts in the Statement of Operations was as follows:

| Derivative Contracts Not Accounted for as Hedging Instruments | Statement of Operations Location | Net Realized Gain (Loss) for the Period | Statement of Operations Location | Net Change in Unrealized Appreciation (Depreciation) for the Period |
|---|-------------------------------------|---|---|---|
| Franklin Income VIP Fund | | | | |
| | Net realized gain (loss) from: | | Net change in unrealized appreciation (depreciation) on: | |
| Interest rate contracts | Futures contracts | \$1,191,330 | Futures contracts | \$(7,106,480) |
| Equity contracts | Written options | 123,830 | Written options | 201,958 |
| Total | | <u>\$1,315,160</u> | | <u>\$(6,904,522)</u> |

For the period ended June 30, 2024, the average month end notional amount of futures contracts and options represented \$101,380,455 and \$129,286, respectively.

See Note 1(d) regarding derivative financial instruments.

8. 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 \$2.675 billion (Global Credit Facility) which matures on January 31, 2025. 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.

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,

Franklin Income VIP Fund (continued)

8. Credit Facility (continued)

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 period ended June 30, 2024, the Fund did not use the Global Credit Facility.

9. 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.

A summary of inputs used as of June 30, 2024, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|-----------|---------|--------------|
| Franklin Income VIP Fund | | | | |
| Assets: | | | | |
| Investments in Securities: | | | | |
| Common Stocks: | | | | |
| Aerospace & Defense | \$45,420,000 | \$— | \$— | \$45,420,000 |
| Air Freight & Logistics | 8,211,000 | — | — | 8,211,000 |
| Banks | 73,076,200 | — | — | 73,076,200 |
| Beverages | 31,104,500 | — | — | 31,104,500 |
| Biotechnology | 17,152,000 | — | — | 17,152,000 |
| Building Products | 13,294,000 | — | — | 13,294,000 |
| Capital Markets | 28,750,800 | — | — | 28,750,800 |
| Chemicals | 20,844,600 | — | — | 20,844,600 |
| Communications Equipment | 33,257,000 | — | — | 33,257,000 |
| Consumer Staples Distribution & Retail | 14,804,000 | — | — | 14,804,000 |
| Containers & Packaging | 8,630,000 | — | — | 8,630,000 |
| Diversified Telecommunication Services | 16,496,000 | — | — | 16,496,000 |
| Electric Utilities | 107,075,057 | — | — | 107,075,057 |
| Ground Transportation | 16,969,500 | — | — | 16,969,500 |
| Health Care Equipment & Supplies | 7,871,000 | — | — | 7,871,000 |
| Health Care Providers & Services | 11,812,000 | — | — | 11,812,000 |
| Hotels, Restaurants & Leisure | 16,987,200 | — | — | 16,987,200 |
| Household Products | 19,790,400 | — | — | 19,790,400 |
| Industrial Conglomerates | 9,692,794 | — | — | 9,692,794 |
| Media | 8,811,000 | — | — | 8,811,000 |
| Metals & Mining | 24,099,327 | — | — | 24,099,327 |
| Multi-Utilities | 39,491,800 | — | — | 39,491,800 |
| Oil, Gas & Consumable Fuels | 122,601,000 | — | — | 122,601,000 |
| Pharmaceuticals | 92,010,769 | 1,441,940 | — | 93,452,709 |
| Semiconductors & Semiconductor Equipment | 41,813,650 | — | — | 41,813,650 |
| Specialty Retail | 24,096,800 | — | — | 24,096,800 |

Franklin Income VIP Fund (continued)

9. Fair Value Measurements (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|----------------------|------------------------|----------------|------------------------|
| Franklin Income VIP Fund (continued) | | | | |
| Assets: (continued) | | | | |
| Investments in Securities: | | | | |
| Common Stocks: | | | | |
| Tobacco | \$20,266,000 | \$— | \$— | \$20,266,000 |
| Equity-Linked Securities | — | 343,664,043 | — | 343,664,043 |
| Convertible Preferred Stocks: | | | | |
| Chemicals | 10,731,800 | — | — | 10,731,800 |
| Financial Services | — | 6,840,000 | — | 6,840,000 |
| Corporate Bonds | — | 1,395,209,234 | — | 1,395,209,234 |
| U.S. Government and Agency Securities | — | 347,125,490 | — | 347,125,490 |
| Asset-Backed Securities | — | 11,950,260 | — | 11,950,260 |
| Mortgage-Backed Securities | — | 64,793,105 | — | 64,793,105 |
| Escrows and Litigation Trusts | — | — | — ^a | — |
| Short Term Investments | 88,707,655 | — | — | 88,707,655 |
| Total Investments in Securities | <u>\$973,867,852</u> | <u>\$2,171,024,072</u> | <u>\$—</u> | <u>\$3,144,891,924</u> |
| Other Financial Instruments: | | | | |
| Futures Contracts | \$492,265 | \$— | \$— | \$492,265 |
| Total Other Financial Instruments | <u>\$492,265</u> | <u>\$—</u> | <u>\$—</u> | <u>\$492,265</u> |
| Liabilities: | | | | |
| Other Financial Instruments: | | | | |
| Options Written | \$1,326,000 | \$— | \$— | \$1,326,000 |
| Total Other Financial Instruments | <u>\$1,326,000</u> | <u>\$—</u> | <u>\$—</u> | <u>\$1,326,000</u> |

^aIncludes financial instruments determined to have no value.

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

10. 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.

Abbreviations

Selected Portfolio

| | |
|--------------|---------------------------------------|
| ADR | American Depositary Receipt |
| FHLMC | Federal Home Loan Mortgage Corp. |
| FNMA | Federal National Mortgage Association |
| FRN | Floating Rate Note |
| REIT | Real Estate Investment Trust |

Changes In and Disagreements with Accountants

For the period covered by this report

Not applicable.

Results of Meeting(s) of Shareholders

For the period covered by this report

Not applicable.

Remuneration Paid to Directors, Officers and Others

For the period covered by this report

Refer to the financial statements included herein.

Board Approval of Management and Subadvisory Agreements

For the period covered by this report

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST**Franklin Income VIP Fund
(Fund)**

At an in-person meeting held on April 16, 2024 (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 the continuance of the investment management agreement between Franklin Advisers, Inc. (Manager) and the Trust, on behalf of the Fund. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of the Management Agreement.

In considering the continuation of the Management Agreement, the Board reviewed and considered information provided by the Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to the Manager by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a virtual contract renewal meeting at which the Independent Trustees first conferred amongst themselves and Independent Trustee counsel about contract renewal matters, and then met with management to request additional information that the Independent Trustees reviewed and considered prior to and at the Meeting. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of the Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services provided by the Manager; (ii) the investment performance of the Fund; (iii) the costs of the services provided and profits realized by the Manager and its affiliates from the relationship with the Fund; (iv) the extent to which economies of scale are realized as the Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of the Management Agreement, the Board, including a majority of the Independent Trustees, determined, through the exercise of its business judgment, that the terms of the Management Agreement are fair and reasonable and that the continuance of the Management Agreement is in the best interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's determination.

Nature, Extent and Quality of Services

The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by the Manager and its affiliates to the Fund and its shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of the Manager; as well as information on succession planning where appropriate; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for the Fund; reports on expenses and shareholder services; legal and compliance matters; risk controls; pricing and other services provided by the Manager and its affiliates; and management fees charged by the Manager and its affiliates to US funds and other accounts, including management's explanation of differences among accounts where relevant. The Board also reviewed and considered an annual report on payments made by Franklin Templeton (FT) or the Fund to financial intermediaries, as well as a memorandum relating to third-party servicing arrangements. The Board acknowledged the ongoing integration of the Putnam family of funds into the FT family of funds and management's continued development of strategies to address areas of heightened concern in the mutual fund industry, including various regulatory initiatives and continuing geopolitical concerns.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the FT family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Manager's parent, and its commitment to the mutual fund business as evidenced by its continued reassessment of the fund offerings in response to FT acquisitions and the market environment, as well as project initiatives and capital investments relating to the services provided to the Fund by the FT organization. The Board specifically noted FT's commitment to technological innovation and advancement, including its initiative to create a new enterprise-wide artificial intelligence platform.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by the 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 December 31, 2023. 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 a Performance Universe. The Board also reviewed and 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 flexible portfolio 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 and in the first quintile (best) of its Performance Universe. The Board also noted that the Fund's annualized total return for the three-, five- and 10-year periods was above the median of its Performance Universe, but for the one-year period was below the median and in the fifth quintile (worst) of its Performance Universe. The Board further noted management's view regarding the income-related attributes of the Fund (e.g., a fund's investment objective) as set forth in the Fund's registration statement and that the evaluation of the Fund's performance relative to its peers on an income return basis was appropriate given these attributes. The Board also noted that, although below the median, the Fund's annualized total return was 8.87% for the one-year period. The Board concluded that the Fund's performance was satisfactory.

Comparative Fees and Expenses

The Board reviewed and considered information regarding the Fund's actual 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 also noted the quarterly and annual reports it receives on all marketing support payments made by FT to financial intermediaries. The Board considered the actual total expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) 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 to the Fund selected by Broadridge (Expense Group). Broadridge fee and expense data is based upon information taken from the fund's most recent annual or semi-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. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

The Expense Group for the Fund included the Fund and nine other flexible portfolio funds underlying VIPs. The Board noted that the Management Rate and actual total expense ratio for the Fund were below the medians of its Expense Group. The Board concluded that the Management Rate charged to the Fund is reasonable.

Profitability

The Board reviewed and considered information regarding the profits realized by the Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board considered the Fund profitability analysis that addresses the overall profitability of FT's US fund business, as well as its profits in providing investment management and other services to the fund during the 12-month period ended September 30, 2023, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product-related changes, the overall methodology has remained consistent with that used in the Fund's profitability report presentations from prior years. The Board also noted that an independent registered public accounting firm has been engaged to periodically review and assess the allocation methodologies to be used solely by the Fund's Board with respect to the profitability analysis.

The Board noted management's belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. As part of this evaluation, the Board considered management's outsourcing of certain operations, which effort has required considerable up-front expenditures by the Manager but, over the long run is expected to result in greater efficiencies. The Board also noted management's expenditures in improving shareholder services provided to the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent US Securities and Exchange Commission and other regulatory requirements.

The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services, potential benefits resulting from personnel and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded that the level of profits realized by the Manager and its affiliates from providing services to the Fund was not excessive in view of the nature, extent and quality of services provided to the Fund.

Economies of Scale

The Board reviewed and considered the extent to which the Manager may realize economies of scale, if any, as the Fund grows larger and whether the Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints for the Fund, which operate generally to share any economies of scale with the Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered management's view that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments the Manager incurs across the FT family of funds as a whole. The Board concluded that to the extent economies of scale may be realized by the Manager and its affiliates, the Fund's management fee structure provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

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 the continuation of the Management Agreement for an additional one-year period.

