MAY 1, 2013

The U.S. Securities and Exchange Commission (SEC) has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

CLASS 5

Franklin Managed Volatility Global Allocation VIP Fund

PROSPECTUS

Franklin Templeton Variable Insurance Products Trust

FRANKLIN TEMPLETON INVESTMENTS

Franklin · Templeton · Mutual Series

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Franklin Managed Volatility Global Allocation VIP Fund

Investment Goal

Total return (including income and capital gains) while seeking to manage volatility.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund. **The table and the example do not include any fees or sales charges imposed by variable insurance contracts, qualified retirement plans or funds of funds.** If they were included, your costs would be higher.

ANNUAL FUND OPERATING EXPENSES

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

	Class 5
Management fees	1.00%
Distribution and service (12b-1) fees	0.10%
Other expenses[1]	0.50%
Other expenses of the Fund	0.40%
Other expenses of the Subsidiary (including Subsidiary management fees)	0.10%
Acquired fund fees and expenses[1]	0.12%
Total annual Fund operating expenses	1.72%
Fee waiver and/or expense reimbursement[2]	-0.67%
Total annual Fund operating expenses after fee waiver and/or expense reimbursement	**1.05%**

1. Other expenses and Acquired fund fees and expenses are based on estimated amounts for the current fiscal year.

2. The investment manager has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee paid by a Cayman Islands-based company that is wholly owned by the Fund (Subsidiary). This waiver may not be terminated and will remain in effect for as long as the investment manager's contract with the Subsidiary is in place. Additionally, the investment manager has contractually agreed to waive or assume certain expenses so that common expenses of the Fund (excluding Rule 12b-1 fees and acquired fund fees and expenses) do not exceed 0.83% (other than certain non-routine expenses), until April 30, 2014. The investment manager also has agreed in advance to reduce its fees as a result of the Fund's investment in a Franklin Templeton money fund (acquired fund) for at least the next 12-month period. Contractual fee waiver and/or expense reimbursement agreements may not be terminated during the terms set forth above.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. The Example reflects adjustments made to the Fund's operating expenses due to the fee waiver and/or expense reimbursement by management for the 1 Year numbers only. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years
Class 5	$107	$476

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance.

Principal Investment Strategies

Under normal market conditions, the Fund seeks to achieve its investment goal by using an asset allocation strategy that seeks to diversify the Fund's portfolio across global asset classes (principally global equity and global fixed income securities), regions and sectors while seeking to limit the expected volatility of the Fund's returns to about 10% or less per year. Currently, the Fund intends to seek a target volatility of 9% or less per year ("Target Volatility"). This strategy may result in the Fund outperforming the general securities market during periods of flat or negative market performance, and underperforming the general securities market during periods of positive market performance. *There is no guarantee that the Fund will achieve its Target Volatility.*

The Fund's Target Volatility is <u>not</u> a total return *performance* target – the Fund does not expect, nor does it represent, that its total return performance will be within any specified range. It is possible

that the Fund could achieve its Target Volatility while having negative performance returns. Also, efforts to manage the Fund's volatility could limit the Fund's gains in rising markets, may expose the Fund to costs to which it would otherwise not have been exposed, and if unsuccessful may result in substantial losses.

Under normal market conditions, the Fund invests principally in a diversified portfolio of stocks and other equity securities (including unaffiliated exchange-traded funds (ETFs) and mutual funds), bonds and other debt securities (fixed income), and short-term (money market) investments allocated across the following broad asset classes, in approximately the following baseline percentages (plus or minus 5%):

- 55% Global Equity (U.S./International/Emerging Markets)
- 37% Global Fixed Income (U.S./International)
- 5% Commodity-Linked Instruments
- 3% Cash, Cash Equivalents and Money Market Securities

At the discretion of the investment manager the above allocations (including sub-allocations within each asset class) may vary from time to time, *e.g.,* based on market conditions, the investment manager's assessment of an asset class' relative attractiveness as an investment opportunity, or as part of the managed volatility strategy. While changes in the allocation of the broad asset classes above are expected to be infrequent, at any given time, the Fund may be invested substantially or entirely in equity securities, global fixed income securities or cash and cash equivalents. However, emerging market equity, emerging market debt, and commodity-linked instruments are each intended to be limited to no more than 5% of the Fund's net assets and to 10% of the Fund's net assets in the aggregate.

The Fund employs a managed volatility strategy, or volatility control process, principally by focusing on investments that the investment manager believes offer attractive returns relative to the risks assumed and by hedging through the use of derivatives. The managed volatility strategy seeks to stabilize the total return volatility of the Fund around its Target Volatility level and to reduce the downside risk of the Fund during periods of significant and sustained market declines. In this context, "volatility" is a statistical measurement of the frequency and level of up and down fluctuations in the value of the Fund's returns over time. Volatility may result in rapid and dramatic price swings. Volatility, in other words, represents the average annual deviation of the Fund's return around the average Fund return.

In seeking to manage the Fund's volatility, the investment manager chooses core investments including low volatility stocks (currently largely through equity ETFs that seek to replicate certain low volatility stock indices) and adjusts its asset allocations in response to periods of high or low expected volatility ("bottom up" risk reduction investment strategies). In addition, the investment manager uses a "top-down," hedging strategy that also seeks to reduce risk, using derivatives instruments (principally stock index and government bond futures). For example, when a particular asset class or classes appear to present high future volatility, reduction in the exposure to such classes would typically be sought; when such volatility appears to be reduced then exposure would typically be increased. The Fund's exposure to various asset classes may be adjusted through the use of derivatives as often as daily or may not be adjusted for extended periods of time. The timing and extent of such adjustments are within the sole discretion of the investment manager. The volatility strategy may cause the Fund's effective exposure to certain asset classes to be greater or lesser than its direct investments.

While there can be no guarantee that the Fund will achieve its Target Volatility, the investment manager will regularly use exchange-traded futures contracts and currency forwards to seek to manage the overall volatility of the Fund. Even in periods of low volatility in the equity markets, the investment manager may continue to use futures and forwards to seek to preserve gains after favorable market conditions and reduce losses in adverse market conditions. In situations of extreme market volatility, the futures and forwards could significantly reduce the Fund's net economic exposure to equity securities. The Fund's investment in futures and forwards and their accompanying costs could limit the Fund's gains in

rising markets relative to those of unhedged funds in general.

With respect to the Fund's global equity investments, the Fund may invest in equity securities of U.S. and non-U.S. companies in any industry and of any market capitalization through direct investments, ETFs or mutual funds. The Fund currently intends to focus principally in unaffiliated ETFs that use an active portfolio process to select stocks the performance of which are intended to correspond to specific low volatility domestic and international low volatility indices. The emerging markets sub-set of the global equity strategy will invest predominantly in equity securities of companies located in emerging market countries, applying a fundamental research, value-oriented, long-term approach.

Overall, the Fund expects to have significant exposure to foreign securities.

With respect to the Fund's global fixed-income investments, the Fund will invest predominantly in debt securities issued by governments and government agencies located around the world.

With respect to its cash investments, the Fund expects to hold high quality money market securities, including U.S. Government securities, U.S. Government agency securities, bank obligations, commercial paper, repurchase agreements and affiliated money market funds.

With respect to the Fund's commodity investments, the investment manager currently intends to purchase exchange-traded notes (ETNs) to gain exposure to commodities. The ETNs are designed to provide investors, such as the Fund, with a cost-effective investment in broad-based commodities, as measured by various recognized commodity indices.

With respect to the Fund's derivative investments, for hedging or investment purposes, the Fund may enter into various transactions involving complex instruments that include but are not limited to, currency forwards, interest rate/bond futures, equity index futures, and exchange-traded notes (ETNs). The managed volatility strategy regularly uses stock index futures, interest rate/bond futures, and currency forwards for hedging purposes, while in the global fixed income portion of the Fund's portfolio, the Fund may, from time to time, use interest rate/bond futures and currency forwards for both hedging and investment purposes. Derivative instruments can be used to adjust or obtain net long or net negative (short) exposure to various asset classes, regions, currencies, sectors or securities for hedging or investment purposes, or to otherwise manage the Fund's volatility.

In connection with the Fund's managed volatility strategy, the investment manager uses a combination of proprietary and third-party risk modeling systems to help it estimate the expected volatility of the Fund's portfolio on a daily basis. Based on those estimates, the investment manager adjusts the Fund's exposure to certain markets and asset classes (through derivatives or other investments) in an attempt to manage the Fund's expected volatility. The Fund may, from time to time, have a net short position in certain asset classes, regions, currencies and sectors.

The Fund is structured as a multi-manager fund, with the investment manager responsible for the Fund's overall asset allocation, investment strategies including the managed volatility strategy, and investment performance monitoring; managing portions of the Fund's portfolio; and managing the commodity-linked instruments. The investment manager sub-contracts with various other investment managers within Franklin Templeton Investments (the "Sub-Advisors") who currently independently manage the following separate portions of the Fund's portfolio: (1) the emerging markets sub-set of the global equity portion; and (2) the global fixed income portion.

Principal Risks

You could lose money by investing in the Fund. Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government.

Market The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Managed Volatility Strategy There can be no guarantee that the Fund will achieve its Target Volatility; moreover, achieving the Fund's Target Volatility does not ensure the Fund will achieve a positive or competitive return. The actual volatility that the Fund experiences may be significantly higher or lower than its Target Volatility. For example, actual realized annual volatility can be expected to exceed the Target Volatility periodically, and this can result in negative returns (losses) that persist beyond one year. In addition, the managed volatility strategy could limit the Fund's gains in rising markets, may expose the Fund to costs to which it would otherwise not have been exposed and, if unsuccessful, may cause the Fund to experience substantial losses greater than what the Fund might have experienced had such strategy not been implemented at all.

In seeking to manage the Fund's portfolio and overall volatility, the investment manager uses proprietary and third-party risk modeling systems. These models use a large amount of data, including third-party data, selected historical returns (and recreations of such returns), and back-tested data over the past ten years. There is no assurance that the modeling systems are complete or accurate, or representative of future market cycles. The results generated by these models may perform differently than expected, and may negatively affect Fund performance and the ability of the Fund to achieve its Target Volatility for various reasons including human judgment that affects the financial algorithms and formulas used in these models, imprecise or stale historical data, non-quantitative factors (such as market/ trading system dysfunctions, investor over-reaction or other emotional considerations), or technical issues with the construction and implementation of quantitative models. The Fund may lose more (and significantly more) than it would have lost had the managed volatility strategy or the risk models not been used. In addition, in periods of extreme markets, the Fund's managed volatility strategy may not protect fully against market decline, realized or actual volatility can be higher than the Target Volatility, and the Fund could be exposed to large losses regardless of its managed volatility strategy.

Interest Rate When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

Credit An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value.

Investing in ETFs and Other Mutual Funds Because the Fund invests to a large extent in ETFs and other mutual funds, the Fund's performance is directly related to the performance of the underlying ETFs and other mutual funds held by it. Investing in ETFs and other mutual funds may be more costly to the Fund than if the Fund had invested in the underlying securities directly. Shareholders of the Fund will indirectly bear the fees and expenses (including management and advisory fees and other expenses) of the underlying ETFs and other mutual funds. In addition, the Fund pays brokerage commissions in connection with the purchase and sale of shares of ETFs.

The Fund's investments in ETFs may subject the Fund to additional risks than if the Fund would have invested directly in the ETFs' underlying securities. These risks include the possibility that an ETF may experience a lack of liquidity; an ETF may trade at a premium or discount to its net asset value; or an investment in an ETF may not achieve its intended purposes or may reduce the diversification benefits of the Fund.

Foreign Securities Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: political and economic developments - the political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S.; trading practices - government supervision and regulation of foreign securities and currency markets, trading systems and brokers may be less than in the U.S.; availability of information - foreign issuers may not be subject to the same disclosure, accounting and

financial reporting standards and practices as U.S. issuers; limited markets - the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and currency exchange rate fluctuations and policies. The risks of foreign investments may be greater in developing or emerging market countries.

Emerging Market Countries The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

Derivative Instruments The performance of derivative instruments (including currency-related derivatives) depends largely on the performance of an underlying currency, security or index, and such instruments often have risks similar to their underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. With over-the-counter derivatives, there is the risk that the other party to the transaction will fail to perform.

Management The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results. In addition, the investment manager's allocation of Fund assets among different asset classes, Sub-Advisors, ETFs, mutual funds and direct investments may not prove beneficial in light of subsequent market events.

Commodities Although it is anticipated that the Fund will only have a 5% allocation of its assets to commodities, investing in physical commodities, either directly or through complex securities such as ETNs, presents unique risks. Investing in physical commodities, including trading in futures contracts thereon, is speculative and can be extremely volatile. Market prices of commodities may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated, or unrealized); weather; agriculture; trade; domestic and foreign political and economic events and policies; diseases; pestilence; technological developments; and monetary and other governmental policies, action and inaction. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity. Certain commodities are used primarily in one industry, and fluctuations in levels of activity in (or the availability of alternative resources to) one industry may have a disproportionate effect on global demand for a particular commodity. Moreover, recent growth in industrial production and gross domestic product has made China and other developing nations oversized users of commodities and has increased the extent to which certain commodities prices are influenced by those markets.

Index and Passive Investing The Fund will have exposure to certain broad-based securities, interest rate and commodity indexes. None of the index sponsors has any obligation or responsibility to the Fund or its shareholders in connection with any modification, discontinuance or suspension of an index, including any obligation or responsibility to notify the Fund of any such modification, discontinuance or suspension.

With respect to the Fund's investment in passively managed ETFs, there is the risk that an ETF may not replicate exactly the performance of the benchmark index it seeks to track. In addition, because ETFs purchased by the Fund are not actively managed, they may be affected by a general decline in market segments relating to their respective indices, as such ETFs do not attempt to take defensive positions in declining markets. Some ETFs may use representative sampling in which case the ETF is subject to an increased risk of tracking error, in that the securities selected in the aggregate for the ETF may not have

an investment profile similar to those of its index. In addition, an ETF's performance may diverge from that of its underlying index due to imperfect correlation between an ETF's portfolio securities and those in its index, rounding, timing of cash flows, the size of the ETF, fees and expenses borne by the ETF and changes to the index. This risk may be heightened during times of increased market volatility or other unusual market conditions.

Performance

Because the Fund is new, it does not have a full calendar year of performance.

Investment Manager
Franklin Advisers, Inc. (Advisers)

Sub-Advisors
Franklin Templeton Investment Management Limited (FTIML) and Templeton Asset Management Ltd. (Asset Management). For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any Sub-Advisor.

Portfolio Managers
SAMER HABL
Portfolio Manager of Advisers and a lead portfolio manager of the Fund since inception (2013).
MARK MOBIUS, PH.D.
Executive Chairman of Templeton Emerging Markets Group, Portfolio Manager of Asset Management and portfolio manager of the emerging markets sub-set of the global equity portion of the Fund since May 2013.
TODD SAUNDERS
Portfolio Manager of Advisers and a portfolio manager of the Fund since inception (2013).
DAVID ZAHN, CFA
Portfolio Manager of FTIML and portfolio manager of the global fixed income portion of the Fund since inception (2013).

Purchase and Sale of Fund Shares
Shares of the Fund are sold to insurance companies' separate accounts (Insurers) to fund variable annuity or variable life insurance contracts and to qualified plans. Insurance companies offer variable annuity and variable life insurance products through separate accounts. Shares of the Fund may also be sold to other mutual funds, either as underlying funds in a fund of funds or in other structures. In addition, Fund shares are held by a limited number of Insurers, qualified retirement plans and, when applicable, funds of funds or feeder funds. Substantial withdrawals by one or more Insurers, qualified retirement plans or funds of funds could reduce Fund assets, causing total Fund expenses to become higher than the numbers shown in the fees and expenses table above.

The terms of the offering of interests in separate accounts are included in the variable annuity or variable life insurance product prospectus. The terms of offerings of funds of funds and feeder funds are included in those funds' prospectuses. The terms of offering of qualified retirement plans are described in their disclosure documents. Investors should consult the variable contract prospectus, fund of fund or feeder fund prospectus, or plan disclosure documents for more information on fees and expenses imposed by variable insurance contracts, funds of funds or qualified retirement plans.

Taxes
Because shares of the Fund are generally purchased through variable annuity contracts or variable life insurance contracts, the Fund's distributions (which the Fund expects, based on its investment objectives and strategies to consist of ordinary income, capital gains or some combination of both) will be exempt from current taxation if left to accumulate within the variable contract. You should refer to your contract prospectus for more information on these tax consequences.

Payments to Sponsoring Insurance Companies and Other Financial Intermediaries
The Fund or its distributor (and related companies) may pay broker/dealers or other financial intermediaries (such as banks and insurance companies, or their related companies) for the sale and retention of variable contracts which offer Fund shares and/or for other services. These payments may create a conflict of interest for a financial intermediary, or be a factor in the insurance company's decision to include the Fund as an investment option in its variable contract. For more information, ask your financial advisor, visit your financial intermediary's website, or consult the variable insurance contract prospectus or this Fund's prospectus.

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Franklin Templeton Variable Insurance Products Trust

Overview

Franklin Templeton Variable Insurance Products Trust (the Trust) currently consists of multiple series (Funds), offering a wide variety of investment choices. Funds may be available in multiple classes: Class 1, Class 2, Class 3, Class 4 and Class 5. The classes are identical except that Class 2, Class 3, Class 4 and Class 5 each has a distribution plan and Class 3 may assess a redemption fee (see "Share Classes" under Fund Account Information). The Funds are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other funds of funds.

Investment Considerations

- The following give a general sense of the level of fund assets associated with a particular investment or strategy: "small portion" (less than 10%); "portion" (10% to 25%); "significant" (25% to 50%); "substantial" (50% to 66%); "primary" (66% to 80%); and "predominant" (80% or more). The percentages are not limitations unless specifically stated as such in this prospectus or in the Trust's Statement of Additional Information (SAI).

Risks

- Fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government. Fund shares involve investment risks, including the possible loss of principal.
- Because you could lose money by investing in a Fund, take the time to read each Fund description and consider all risks before investing.

Additional Information

More detailed information about each Fund, its investment policies, and its particular risks can be found in the SAI.

Investment Management

The Funds' investment managers and their affiliates manage as of February 28, 2013, over $813 billion in assets, and have been in the investment management business since 1947. In 1992, Franklin joined forces with Templeton, a pioneer in international investing. The Mutual Series organization became part of the Franklin Templeton organization four years later. In 2001, the Fiduciary Trust team, known for providing global investment management to institutions and high net worth clients worldwide, joined the organization.

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Franklin Managed Volatility Global Allocation VIP Fund

Investment Goal

The Fund's investment goal is total return (including income and capital gains) while seeking to manage volatility. The Fund's investment goal is non-fundamental, which means it may be changed by the board of trustees without shareholder approval. Shareholders will be given at least 60 days' advance notice of any change to the Fund's investment goal.

Principal Investment Policies and Practices

Under normal market conditions, the Fund seeks to achieve its investment goal by using an asset allocation strategy that seeks to diversify the Fund's portfolio across global asset classes (principally global equity and global fixed income securities), regions and sectors while seeking to limit the expected volatility of the Fund's returns to about 10% or less per year. Currently, the Fund intends to seek a target volatility of 9% or less per year ("Target Volatility"). This strategy may result in the Fund outperforming the general securities market during periods of flat or negative market performance, and underperforming the general securities market during periods of positive market performance. *There is no guarantee that the Fund will achieve its Target Volatility.*

The Fund's Target Volatility is <u>not</u> a total return *performance* target – the Fund does not expect, nor does it represent, that its total return performance will be within any specified range. It is possible that the Fund could achieve its Target Volatility while having negative performance returns. Also, efforts to manage the Fund's volatility could limit the Fund's gains in rising markets, may expose the Fund to costs to which it would otherwise not have been exposed, and if unsuccessful may result in substantial losses.

Under normal market conditions, the Fund invests principally in a diversified portfolio of stocks and other equity securities (including unaffiliated exchange-traded funds (ETFs) and mutual funds), bonds and other debt securities, and short-term (money market) investments allocated across the following broad asset classes, in approximately the following baseline percentages (plus or minus 5%):

- 55% Global Equity (U.S./International/Emerging Markets)
- 37% Global Fixed Income (U.S./International)
- 5% Commodity-Linked Instruments
- 3% Cash, Cash Equivalents and Money Market Securities

At the discretion of the investment manager the above allocations (including sub-allocations within each asset class) may vary from time to time, *e.g.,* based on market conditions, the investment manager's assessment of an asset class' relative attractiveness as an investment opportunity, or as part of the managed volatility strategy. For example, as a result of the Fund's use of derivatives, and/or in an effort to manage expected volatility, the Fund may hold significant amounts of money market instruments. The Fund may allocate, without limitation, assets into cash or short-term fixed income securities, and away from riskier assets, such as equity securities. At any given time, the Fund may be invested substantially or entirely in equity securities, global fixed income securities or cash and cash equivalents. While changes in the allocation of the broad asset classes are expected to be infrequent, at any given time, the Fund may be invested substantially or entirely in equity securities, global fixed income securities or cash and cash equivalents. However, emerging market equity, emerging market debt, and commodity-linked instruments are each intended to be limited to no more than 5% of the Fund's net assets and to 10% of the Fund's net assets in the aggregate.

The Fund employs a managed volatility strategy, or volatility control process, principally by focusing on investments that the investment manager believes offer attractive returns relative to the risks assumed and by hedging through the use of derivatives. The managed volatility strategy seeks to stabilize the total return volatility of the Fund around its Target Volatility level and to reduce the downside risk of the Fund during periods of significant and sustained market declines. In this context, "volatility" is a statistical measurement of the frequency and level of up and down fluctuations in the value of the Fund's returns over time. Volatility may result in rapid and dramatic price swings. Volatility, in other words, represents the average annual deviation of the Fund's return around the average Fund return.

In seeking to manage the Fund's volatility, the investment manager chooses core investments including low volatility stocks (currently largely

through equity ETFs that seek to replicate certain low volatility stock indices) and adjusts its asset allocations in response to periods of high or low actual or expected volatility ("bottom up" risk reduction investment strategies). In addition, the investment manager uses "top-down," hedging that also seeks to reduce risk, using derivatives instruments (principally stock index and government bond futures). For example, when a particular asset class or classes appear to present high future volatility, reduction in the exposure to such classes would typically be sought; when such volatility appears to be reduced then exposure would typically be increased. The Fund's exposure to various asset classes may be adjusted through the use of derivatives as often as daily or may not be adjusted for extended periods of time. The timing and extent of such adjustments are within the sole discretion of the investment manager. The investment manager does not generally seek to time the direction of the entire market, but attempts to keep the flexibility to shift the Fund's net exposure (the value of investments held long less the value of investments held short) depending generally on which market opportunities look more attractive in light of the Fund's Target Volatility. The Fund may, from time to time, have a net short position in certain asset classes, regions, currencies and sectors. The volatility strategy may cause the Fund's effective exposure to certain asset classes to be greater or lesser than its direct investments.

While there can be no guarantee that the Fund will achieve its Target Volatility, the investment manager will regularly use exchange-traded futures contracts and currency forwards to seek to manage the overall volatility of the Fund. Even in periods of low volatility in the equity markets, the investment manager may continue to use futures and forwards to seek to preserve gains after favorable market conditions and reduce losses in adverse market conditions. In situations of extreme market volatility, the futures and forwards could significantly reduce the Fund's net economic exposure to equity securities. The Fund's investment in futures and forwards and their accompanying costs could limit the Fund's gains in rising markets relative to those of unhedged funds in general.

With respect to the Fund's global equity investments, the Fund may invest in equity securities of U.S. and non-U.S. companies in any industry and of any market capitalization through direct investments, ETFs or mutual funds. The Fund currently intends to focus principally in unaffiliated ETFs that use an active portfolio process to select stocks the performance of which are intended to correspond to specific low volatility domestic and international low volatility indices. The emerging markets sub-set of the global equity strategy will invest predominantly in equity securities of companies located in emerging market countries, applying a fundamental research, value-oriented, long-term approach.

With respect to the Fund's global fixed-income investments, the Fund will invest predominantly in debt securities issued by governments and government agencies located around the world.

Overall, the Fund expects to have significant exposure to foreign securities.

With respect to its cash investments, the Fund expects to hold high quality money market securities, including U.S. Government securities, U.S. Government agency securities, bank obligations, commercial paper, repurchase agreements and affiliated money market funds.

With respect to the Fund's commodity investments, the investment manager currently intends to purchase exchange-traded notes (ETNs) to gain exposure to commodities. It is anticipated, however, that an affiliate of the investment manager will eventually manage the commodity-linked instruments for the Fund. The total return ETNs anticipated to be used by the investment manager are senior, unsubordinated debt securities that trade on U.S. and foreign stock exchanges at market price. The ETNs are designed to provide investors, such as the Fund, with a cost-effective investment in broad-based commodities, as measured by various commodity indices. The Fund intends to hold the ETNs and other commodity-linked instruments in a Cayman Islands-based company that is wholly owned by the Fund (the "Subsidiary"). Investing through the Subsidiary is principally intended to gain exposure to such commodity-linked instruments within the federal income tax requirements that apply to the Fund.

With respect to the Fund's derivative investments, for hedging or investment purposes, the Fund may

enter into various transactions involving complex instruments that include but are not limited to, currency forwards, interest rate/bond futures, equity index futures, and exchange-traded notes (ETNs). The managed volatility strategy regularly uses equity index futures, interest rate/bond futures, and currency forwards, for hedging purposes, while in the global fixed income portion of the Fund's portfolio, the Fund may, from time to time, use interest rate/bond futures and currency forwards for both hedging and investment purposes. Derivative instruments can be used to adjust or obtain net long or net negative (short) exposure to various asset classes, regions, currencies, sectors or securities for hedging or investment purposes, or to otherwise manage the Fund's volatility.

In connection with the Fund's managed volatility strategy, the investment manager uses a combination of proprietary and third-party risk modeling systems to help it estimate the expected volatility of the Fund's portfolio on a daily basis. The risk models are based on the historical returns of selected broad asset classes (or, in some cases, recreations or simulations of such returns, e.g., for periods that predate the creation of the particular ETF or index) and can reflect certain back-tested data from the previous decade, to help estimate short-term and long-term risk (and volatility). For example, the investment manager makes future estimates of the volatility of the Fund, including the various asset classes in which it invests. Based on those estimates and other factors, the investment manager adjusts the Fund's exposure to certain markets and asset classes (through derivatives or other investments) in an attempt to manage the Fund's expected volatility.

The Fund is structured as a multi-manager fund, with the investment manager responsible for the Fund's overall asset allocation, investment strategies including the managed volatility strategy, and investment performance monitoring; managing portions of the Fund's portfolio; and managing the commodity-linked instruments. The investment manager sub-contracts with various other investment managers within Franklin Templeton Investments (the "Sub-Advisors") who currently independently manage the following separate portions of the Fund's portfolio: (1) the emerging markets sub-set of the global equity portion; and (2) the global fixed income portion.

The Fund uses complex securities, including derivative instruments, to pursue its investment goals and implement its investment strategies. For example, equity index futures may allow the Fund to obtain net long or net short exposures to a selected reference index and the underlying securities without actually having to purchase or sell such underlying securities. Interest rate/bond futures may allow the Fund to obtain net long or net short exposures to selected interest rates, durations or credit risks/issuers. Currency forwards may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. Derivative instruments can be used to adjust or obtain net long or net negative (short) exposure to various asset classes, regions, currencies, sectors or securities for hedging or investment purposes, or to otherwise manage the Fund's volatility. For example, the use of such derivative instruments may allow the investment manager to implement the managed volatility strategy with lower transaction costs than it might otherwise incur by changing the allocations among the various asset classes within the Fund's portfolio.

A futures contract is a standard binding agreement to buy or sell a specified quantity of an underlying instrument or asset, such as a specific security or currency, at a specified price at a specified later date that trade on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument specified in the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to purchase the underlying instrument specified in the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or interest rate. Although most futures contracts used by the Fund by their terms require a cash payment of the net gain or loss on the contract at the time of delivery, some require the actual delivery or acquisition of the underlying instrument. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges. By way of example, when the investment manager believes that the value of a particular foreign government bond is expected to increase in value, the Fund could purchase futures contracts on such bonds to purchase those bonds at a

future date. If at such future date the value of bonds exceeds the amount to be paid by the Fund under the contract, the Fund will recognize a gain. When used for hedging purposes, a futures contract or other derivative instrument could be used to protect against possible declines in a security's or currency's value.

A currency forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is typically individually negotiated and privately traded by currency traders and their customers in the interbank market. A cross currency forward is a forward contract to sell a specific foreign currency in exchange for another foreign currency and may be used when the Fund believes that the price of one of those foreign currencies will experience a substantial movement against the other foreign currency. A cross currency forward will tend to reduce or eliminate exposure to the currency that is sold, and add or increase exposure to the currency that is purchased, similar to when the Fund sells a security denominated in one currency and purchases a security denominated in another currency. When used for hedging purposes, a cross currency forward will protect the Fund against losses resulting from a decline in the hedged currency, but will cause the Fund to assume the risk of fluctuations in the value of the currency it purchases.

The ETNs used by the investment manager are senior, unsecured unsubordinated debt securities that trade on U.S. and foreign stock exchanges at market price. In addition, investors can receive a cash payment at the ETNs' scheduled maturity or through early redemption. The ETNs are backed by the credit of the issuer and their return is linked to the performance of an index intended to reflect the returns that are potentially available through an investment in futures contracts on the physical commodities comprising the index, plus a specified rate of interest. No periodic interest payments are made on the ETNs and there is no principal protection.

Commodity Exchange Act Exclusions and Exemptions

With respect to the Fund, the investment manager has claimed an exclusion from the definition of "commodity pool operator" (CPO) under the Commodity Exchange Act (CEA) and the rules of the Commodity Futures Trading Commission (CFTC) and, therefore, is not subject to CFTC registration or regulation as a CPO. In addition, the investment manager is relying upon a related exclusion from the definition of "commodity trading advisor" (CTA) under the CEA and the rules of the CFTC.

The sub-advisors are not registered as CTAs and are relying on exemptions under the CEA and CFTC rules.

As of January 1, 2013, the terms of the CPO exclusion require the Fund, among other things, to adhere to certain limits on its investments in futures, commodity options, swaps and non-deliverable foreign currency forwards (other than certain transactions that qualify as bona fide hedging under CFTC rules). Because the investment manager and the Fund intend to comply with the terms of the CPO exclusion, the Fund may, in the future, need to adjust its investment strategies, consistent with its investment goals, to limit its investments in these types of instruments. The Fund is not intended as a vehicle for trading in the futures, commodity options or swaps markets. The CFTC has neither reviewed nor approved the investment manager's reliance on these exclusions, or the Fund, its investment strategies or this prospectus.

Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, up to 100% of the Fund's assets may be invested in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high-grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities, to maintain liquidity, to meet expected redemption obligations, or to segregate on the Fund's books in connection with its derivative strategies. In any of these circumstances, the Fund may be unable to achieve its investment goals.

Principal Risks

Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

Managed Volatility Strategy

There can be no guarantee that the Fund will achieve its Target Volatility; moreover, achieving the Fund's Target Volatility does not ensure the Fund will achieve a positive or competitive return. The actual volatility that the Fund experiences may be significantly higher or lower than its Target Volatility. For example, actual realized annual volatility can be expected to exceed the Target Volatility periodically, and this can result in negative returns (losses) that persist beyond one year. In addition, the managed volatility strategy could limit the Fund's gains in rising markets, may expose the Fund to costs to which it would otherwise not have been exposed and, if unsuccessful, may cause the Fund to experience substantial losses greater than what the Fund might have experienced had such strategy not been implemented at all. Moreover, the volatility management strategy can also be expected to limit the Fund's participation in market price appreciation when compared to similar funds that do not attempt to manage volatility within a given target level.

The use of derivative instruments in an effort to adjust the Fund's exposures may at times increase its volatility, for reasons including the leveraging effect of those instruments. The investment manager expects that, in periods of particularly high volatility in certain markets, the Fund will experience volatility greater than its Target Volatility. The Fund could experience volatility greater than its Target Volatility at any time and for any period of time. Also, the Fund's net asset value may be more volatile over short-term periods.

In seeking to manage the Fund's portfolio and overall volatility, the investment manager uses proprietary and third-party risk modeling systems to obtain short-term risk and correlation forecasts. These models examine multiple economic factors and asset classes using a large amount of data, including third-party data, selected historical returns (or, in some cases, recreations of such returns), and certain back-tested data over the past ten years. There is no assurance that the modeling systems are complete or accurate, or representative of future market cycles, nor will they necessarily be beneficial to the Fund even if they are accurate. The results generated by these models may perform differently than in the past, or as expected. They may negatively affect Fund performance and the ability of the Fund to meet its Target Volatility for various reasons. For example, human judgment plays a role in building, using, testing, and modifying the financial algorithms and formulas used in these models. Additionally, there is a possibility that the historical data may be imprecise or become stale due to new events or changing circumstances which the models may not promptly detect. Market performance can be affected by non-quantitative factors (for example, market or trading system dysfunctions, investor fear or over-reaction or other emotional considerations) that are not easily integrated into the investment manager's risk models. There may also be technical issues with the construction and implementation of quantitative models (for example, software or other technology malfunctions, or programming inaccuracies).

In cases of extreme market conditions during which there is price dislocation for certain securities or in the event of systemic market dislocation, the Fund's

managed volatility strategy may cause the Fund to be significantly over- or under-exposed to a specific security or asset class. In such cases, the Fund may lose more and, in some cases, may lose significantly more, than it would have lost had the managed volatility strategy or the risk models not been used. In addition, in periods of extreme or sudden market decline, if the investment manager's risk models do not predict, or only detect after a time lag, such sudden or extreme declines, the Fund's managed volatility strategy will not protect fully against the market decline, realized or actual volatility can be higher than the Target Volatility, and the Fund could be exposed to large losses regardless of its managed volatility strategy. Sustained market disruptions and price dislocation can also prevent the Fund from implementing its investment strategies, including its managed volatility strategy, for a period of time and may prevent the Fund from achieving its investment goal.

Interest Rate

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. Securities with longer maturities or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to these interest rate changes. The longer the Fund's average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price.

Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

Investing in ETFs and Other Mutual Funds

Because the Fund invests to a large extent in ETFs and other mutual funds, the Fund's performance is directly related to the performance of the underlying ETFs and other mutual funds held by it. The ability of the Fund to achieve its investment goal is directly related to, in part, the ability of the underlying ETFs and other mutual funds to meet their investment goal.

Investing in ETFs and other mutual funds may be more costly to the Fund than if the Fund had invested in the underlying securities directly. Shareholders of the Fund will indirectly bear the fees and expenses (including management and advisory fees and other expenses) of the underlying ETFs and other mutual funds. As the Fund's allocations among the underlying ETFs or mutual funds change from time to time, or to the extent that the expense ratios of the underlying ETFs or mutual funds change, the expenses borne by the Fund may increase or decrease. In addition, the Fund pays brokerage commissions in connection with the purchase and sale of shares of ETFs, in addition to a spread (the difference between what professional investors are willing to pay for ETF shares and the price at which they are willing to sell ETF shares).

The Fund's investments in ETFs may subject the Fund to additional risks than if the Fund would have invested directly in the ETFs' underlying securities. These risks include the possibility that an ETF may experience a lack of liquidity that can result in greater volatility than its underlying securities. In addition, an ETF may trade at a premium or discount to its net asset value, as shares of an ETF are bought and sold based on exchanges on market values and not at the ETF's net asset value.

Another risk of investing in ETFs and other mutual funds is the possibility that one ETF or mutual fund may buy the same securities that another ETF or mutual fund sells. If this happens, an investor in the Fund would indirectly bear the costs of these transactions without accomplishing the intended investment purpose. Also, an investor in the Fund may receive taxable gains from portfolio transactions by an ETF or mutual fund, as well as taxable gains from transactions in shares of the ETF or mutual fund by the Fund. The Fund or the underlying ETFs or mutual

funds may hold common portfolio securities, thereby reducing the diversification benefits of the Fund.

Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

Currency exchange rates. Foreign securities may be issued and traded in foreign currencies. As a result, their market values in U.S. dollars may be affected by changes in exchange rates between such foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. The Fund accrues additional expenses when engaging in currency exchange transactions, and valuation of the Fund's foreign securities may be subject to greater risk because both the currency (relative to the U.S. dollar) and the security must be considered.

Currency management strategies. Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. Using currency management strategies for purposes other than hedging further increases the Fund's exposure to foreign investment losses. Currency markets generally are not as regulated as securities markets. In addition, currency rates may fluctuate significantly over short periods of time, and can reduce returns.

Political and economic developments. The political, economic and social structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult or expensive for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

Trading practices. Brokerage commissions, withholding taxes, custodial fees, and other fees generally are higher in foreign markets. The policies and procedures followed by foreign stock exchanges, currency markets, trading systems and brokers may differ from those applicable in the United States, with possibly negative consequences to the Fund. The procedures and rules governing foreign trading, settlement and custody (holding of the Fund's assets) also may result in losses or delays in payment, delivery or recovery of money or other property. Foreign government supervision and regulation of foreign securities markets and trading systems may be less than or different from government supervision in the United States, and may increase the Fund's regulatory and compliance burden and/or decrease the Fund's investor rights and protections.

Availability of information. Foreign issuers may not be subject to the same disclosure, accounting, auditing and financial reporting standards and practices as U.S. issuers. Thus, there may be less information publicly available about foreign issuers than about most U.S. issuers.

Limited markets. Certain foreign securities may be less liquid (harder to sell) and their prices may be more volatile than many U.S. securities. Illiquidity tends to be greater, and valuation of the Fund's foreign

securities may be more difficult, due to the infrequent trading and/or delayed reporting of quotes and sales.

Regional. Adverse conditions in a certain region can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region, the Fund will generally have more exposure to regional economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Fund's assets are invested, the Fund may experience substantial illiquidity or reduction in the value of the Fund's investments.

Emerging market countries. The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets. Some of the additional significant risks include:

- less social, political and economic stability;
- smaller securities markets with low or nonexistent trading volume and greater illiquidity and price volatility;
- more restrictive national policies on foreign investment, including restrictions on investment in issuers or industries deemed sensitive to national interests;
- less transparent and established taxation policies;
- less developed regulatory or legal structures governing private and foreign investment or allowing for judicial redress for injury to private property;
- less familiarity with a capital market structure or market-oriented economy and more widespread corruption and fraud;
- less financial sophistication, creditworthiness and/or resources possessed by, and less government regulation of, the financial institutions and issuers with which the Fund transacts;
- less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies than in the U.S.;
- greater concentration in a few industries resulting in greater vulnerability to regional and global trade conditions;
- higher rates of inflation and more rapid and extreme fluctuations in inflation rates;
- greater sensitivity to interest rate changes;
- increased volatility in currency exchange rates and potential for currency devaluations and/or currency controls;
- greater debt burdens relative to the size of the economy;
- more delays in settling portfolio transactions and heightened risk of loss from share registration and custody practices; and
- less assurance that recent favorable economic developments will not be slowed or reversed by unanticipated economic, political or social events in such countries.

Because of the above factors, the Fund's investments in emerging market countries are subject to greater price volatility and illiquidity than investments in developed markets.

Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying currency instrument or index, and such instruments often have risks similar to their underlying instrument, in addition to other risks. Derivative instruments involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend

on the investment manager's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the investment manager is not successful in using such derivative instruments, the Fund's performance may be worse than if the investment manager did not use such derivative instruments at all. To the extent that the Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

Use of these instruments could also result in a loss if the counterparty to the transaction (with respect to forward currency contracts and other over-the-counter (OTC) derivatives) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that the Fund is unable to close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The Fund may also be required to take or make delivery of an underlying instrument that the investment manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Fund intends to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the investment manager elects not to do so due to availability, cost or other factors.

The use of derivative strategies may also have a tax impact on the Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the investment manager to utilize derivatives when it wishes to do so.

Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, future volatility, interest rates, industries, sectors and regions or the attractiveness, relative values, liquidity, effectiveness or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. The investment manager's allocation of Fund assets among different asset classes, Sub-Advisors, ETFs, mutual funds and direct investments may not prove beneficial in light of subsequent market events. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goals.

Commodities

Investing in physical commodities, either directly or through complex securities such as ETNs, presents unique risks. Investing in physical commodities, including trading in futures contracts thereon, is speculative and can be extremely volatile. Market prices of commodities may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated or unrealized); weather; agriculture; trade; domestic and foreign political and economic events and policies; diseases; pestilence; technological developments; and monetary and other governmental policies, action and inaction. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant

commodity. Certain commodities are used primarily in one industry, and fluctuations in levels of activity in (or the availability of alternative resources to) one industry may have a disproportionate effect on global demand for a particular commodity. Moreover, recent growth in industrial production and gross domestic product has made China and other developing nations oversized users of commodities and has increased the extent to which certain commodities prices are influenced by those markets.

Index and Passive Investing

The Fund will have exposure to certain broad-based securities, interest rate and commodity indexes. The sponsors of these indexes are under no obligation to continue the calculation and dissemination of the indexes. The sponsors of the indexes may at any time or from time to time modify the calculation or construction of the indexes. In addition, the sponsors of the indexes may discontinue or suspend the calculation or publication of the indexes. None of the index sponsors has any obligation or responsibility to the Fund or its shareholders in connection with any such modification, discontinuance or suspension, including any obligation or responsibility to notify the Fund of any such modification, discontinuance or suspension.

With respect to the Fund's investment in passively managed ETFs, there is the risk that an ETF may not replicate exactly the performance of the benchmark index it seeks to track. If an ETF does not fully replicate the underlying index, it is subject to the risk that the manager's investment management strategy may not produce the intended results. In addition, because ETFs purchased by the Fund are not actively managed, they may be affected by a general decline in market segments relating to their respective indices, as such ETFs do not attempt to take defensive positions in declining markets.

The ETFs in which the Fund invests may or may not hold every security in the index. Some ETFs may use representative sampling, which is a method of indexing that involves investing in a representative sample of securities that collectively have a similar investment profile to the index. When this occurs, the ETF is subject to an increased risk of tracking error, in that the securities selected in the aggregate for the ETF may not have an investment profile similar to those of its index.

In addition, an ETF's performance may diverge from that of its underlying index due to imperfect correlation between an ETF's portfolio securities and those in its index, rounding, timing of cash flows, the size of the ETF, fees and expenses borne by the ETF and changes to the index. This risk may be heightened during times of increased market volatility or other unusual market conditions.

Portfolio Turnover

The investment manager will sell a security or enter into or close out of a derivative position when it believes it is appropriate to do so, regardless of how long the Fund has held the instrument. These activities increase the Fund's portfolio turnover and may increase the Fund's transaction costs.

Tax Risk

The Fund must meet certain requirements under the Code for favorable tax treatment as a regulated investment company (RIC), including asset diversification and income requirements. The Fund intends to treat any income it derives from the Subsidiary as derived with respect to Fund's business of investing in the stock of Subsidiary and thus "qualifying income." The Internal Revenue Service (IRS) has issued a number of private letter rulings to other mutual funds, upon which only the fund that received the private letter ruling can rely, which indicate that income from a fund's investment in a wholly owned foreign subsidiary that invests in commodity-linked derivatives instruments, such as the Subsidiary, constitutes qualifying income. However, the IRS suspended the issuance of further such rulings in July 2011 pending a review of its position. If the IRS were to issue guidance, or Congress were to enact legislation, that adversely affects the tax treatment of the Fund's investment in the Subsidiary (which guidance might be applied retroactively to the Fund's investment in the Subsidiary), the Fund might not qualify as a RIC for one or more years. If for any taxable year the Fund does not qualify as a RIC, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate income tax rates without any deduction for dividends paid

to shareholders, and the dividends would be taxable to shareholders as dividends (possibly as qualified dividend income) to the extent of the Fund's current or accumulated earnings and profits. In the event of any such adverse action, the Fund's board of trustees may authorize a significant change in investment strategy. The Fund intends to limit its investment in the Subsidiary to no more than 25% of the value of its total assets in order to satisfy the asset diversification requirement.

More detailed information about the Fund, its policies and risks can be found in the Fund's SAI.

Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, California 94403-1906, is the Fund's investment manager.

Under separate agreements with Advisers, Franklin Templeton Investment Management Limited (FTIML), The Adelphi Building, 1-11 John Adams Street, London, WC2N 6HT and Templeton Asset Management Ltd. (Asset Management), 7 Temasek Boulevard #38-03, Suntec Tower One, Singapore, 038987, are the Fund's Sub-Advisors. FTIML and Asset Management provide Advisers with investment management advice and assistance. FTIML and Asset Management are indirect subsidiaries of Franklin Resources, Inc. (Resources) and Advisers is a direct subsidiary of Resources. For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any Sub-Advisor.

The Fund is managed by a team of dedicated professionals. The portfolio managers of the team, including those of the Sub-Advisors, are as follows:

SAMER HABL
Portfolio Manager of Advisers

Mr. Habl has been a lead portfolio manager of the Fund since inception (2013). He has primary responsibility for the investments of the Fund. He has final authority and responsibility over all aspects of the Fund's investment portfolio, including but not limited to the Fund's investment decisions relating to its managed volatility strategy, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 2010. Prior to joining Franklin Templeton Investments, he worked at Mellon Capital Management for approximately ten years, most recently as managing director of Global Tactical Asset Allocation Research.

MARK MOBIUS, PH.D.
Executive Chairman of Templeton Emerging Markets Group and Portfolio Manager of Asset Management

Dr. Mobius has been a portfolio manager of the emerging markets sub-set of the global equity portion of the Fund since May 2013, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. Dr. Mobius joined Franklin Templeton Investments in 1987.

TODD SAUNDERS
Portfolio Manager of Advisers

Mr. Saunders has been a portfolio manager of the Fund since inception (2013), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2011. Prior to joining Franklin Templeton Investments, he worked at Bayswater Asset Management LLC since 2007, most recently as chief financial officer and chief operating officer.

DAVID ZAHN, CFA
Portfolio Manager of FTIML

Mr. Zahn has been a portfolio manager of the global fixed income portion of the Fund since inception (2013), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2006.

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The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

The Fund pays Advisers a fee for managing the Fund's assets. The fee is equal to an annual rate of:

- 1.000% of the value of the Fund's average daily net assets up to and including $1 billion;

- 0.980% of the value of the Fund's average daily net assets over $1 billion up to and including $5 billion;
- 0.960% of the value of the Fund's average daily net assets over $5 billion up to and including $10 billion;
- 0.940% of the value of the Fund's average daily net assets over $10 billion up to and including $15 billion;
- 0.920% of the value of the Fund's average daily net assets over $15 billion up to and including $20 billion; and
- 0.900% of the value of the Fund's average daily net assets over $20 billion.

The investment manager compensates each Sub-Advisor for providing investment advice and analysis and for managing that portion of the Fund's assets allocated to it from time to time by the investment manager. The separate portions of the Fund's assets managed by the investment manager are allocated fees that are retained from, and not in addition to, the overall investment management fee paid to the investment manager by the Fund.

Advisers has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee paid by the Subsidiary. This waiver may not be terminated and will remain in effect for as long as the investment manager's contract with the Subsidiary is in place. Advisers also agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. In addition, Advisers has agreed to waive or limit its fees and to assume as its own certain expenses otherwise payable by the Fund so that common expenses (i.e., a combination of investment management fees, administration fees, and other expenses, but excluding the Rule 12b-1 fees and acquired fund fees and expenses) for each class of the Fund do not exceed 0.83% (other than certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations and liquidations) until April 30, 2014.

Manager of Managers Structure

Advisers and the Trust have received an exemptive order from the SEC that allows the Fund to operate in a "manager of managers" structure whereby Advisers, as the Fund's investment manager, can appoint and replace sub-advisors from within Franklin Templeton Investments ("affiliated sub-advisors"), and enter into, amend and terminate sub-advisory agreements with affiliated sub-advisors, each subject to board approval but without obtaining prior shareholder approval (the "Manager of Managers Structure"). The Fund will, however, inform shareholders of the hiring of any new affiliated sub-advisor within 90 days after the hiring. The SEC exemptive order provides the Fund with greater flexibility.

The use of the Manager of Managers Structure with respect to the Fund is subject to certain conditions that are set forth in the SEC exemptive order. Under the Manager of Managers Structure, Advisers has the ultimate responsibility, subject to oversight by the Fund's board of trustees, to oversee the affiliated sub-advisors and recommend their hiring, termination and replacement. Advisers will also, subject to the review and approval of the Fund's board of trustees: set the Fund's overall investment strategy; evaluate, select and recommend affiliated sub-advisors to manage all or a portion of the Fund's assets; allocate and, when appropriate, reallocate the Fund's assets among affiliated sub-advisors; monitor and evaluate the affiliated sub-advisors' performance; and implement procedures reasonably designed to ensure that each affiliated sub-advisor complies with the Fund's investment goal, policies and restrictions.

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Additional Information, All Funds

DEALER COMPENSATION

Franklin Templeton Distributors, Inc. (Distributors) and/or its affiliates may provide financial support to securities dealers that sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest in the Trust (VIP Qualifying Dealers); such financial support may be made by payments from Distributors' and/or its affiliates' resources, including from Distributors' retention of underwriting concessions and, in the case of Rule 12b-1 share classes, from payments to Distributors under such plans.

Distributors makes these payments in connection with VIP Qualifying Dealers' efforts to educate financial advisors about our funds. A number of factors will be considered in determining payments, including such dealer's sales, assets and redemption rates, and the quality of the dealer's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. To the extent permitted by SEC and FINRA rules and other applicable laws and regulations, Distributors and/or its affiliates may pay or allow other promotional incentives or payments to dealers. Sale of shares of the Funds, as well as shares of other Franklin Templeton funds, is not considered a factor in the selection of securities dealers to execute the Funds' portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by VIP Qualifying Dealers is not considered marketing support payments.

You can find further details in the SAI about the payments made by Distributors and/or its affiliates and the services provided by your VIP Qualifying Dealer. While your insurance company's fees and charges are generally disclosed in the insurance contract prospectus, your VIP Qualifying Dealer may charge you additional fees or commissions other than those disclosed in this prospectus. You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and/or its affiliates and any services they provide, as well as about fees and/or commissions they charge. These payments and other fees and charges are not reflected in the fee table included in this prospectus. Additional disclosure may be included in the insurance contract prospectus.

PORTFOLIO HOLDINGS

A description of the Trust's policies and procedures regarding the release of portfolio holdings information for each Fund of the Trust (collectively, the "Fund") is also available in the Trust's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

STATEMENTS AND REPORTS

Contract Owners should receive financial reports for the Fund related to their Contract from the sponsoring Insurer every six months.

ADMINISTRATIVE SERVICES

Franklin Templeton Services, LLC provides business administration services and facilities for the Fund and makes certain payments (see the SAI for more information) to insurance companies out of its own resources for certain administrative services.

Distributions and Taxes

INCOME AND CAPITAL GAINS DISTRIBUTIONS

Each Fund (sometimes referred to as, "the Fund") intends to pay income dividends at least annually from its net investment income. Capital gains, if any, may be paid at least annually. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions.

TAX CONSIDERATIONS

The Trust consists of multiple Funds each of which for federal income tax purposes is treated separately from any other. Each Fund expects to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the assets, income and distributions of the Fund are considered separately for purposes of determining whether the Fund qualifies

as a regulated investment company. If the Fund so qualifies, it will not be subject to federal income tax on the portion of its income and gains that it distributes to shareholders. Additionally, each Fund intends to comply with the diversification requirements imposed by Section 817(h) of the Code.

For federal income tax purposes, the insurance companies and their separate accounts are treated as the owners of the shares of the Fund selected as an investment option rather than the purchasers of a variable annuity contract or variable life insurance policy (variable contracts). In light of the tax-favored status of life insurance company separate accounts, there should be no adverse federal income tax consequences to them as a result of their buying, holding, exchanging or selling Fund shares or on their receipt of Fund distributions, subject to applicable limitations under the Code.

Insurance companies offer variable annuity and variable life insurance products to investors including pension plans (Contracts), through separate accounts (Insurers). When shares of the Fund are investment options of Contracts, separate accounts, and not the owners of the Contracts including group contract and pension plan certificate holders (Contract Owners), are generally the shareholders of the Fund. As a result, it is anticipated that any income dividends or capital gains distributions paid by the Fund will be exempt from current taxation to the purchaser of such variable contracts if left to accumulate within a variable contract. Withdrawals from such contracts may be subject to ordinary income tax plus a 10% penalty tax if made before age 59½. For more information on taxes, please refer to the accompanying prospectus of the annuity or life insurance program for which shares of the Fund are underlying investment options.

Investment in commodities. The Fund must meet certain requirements under the Code for favorable tax treatment as a regulated investment company, including asset diversification and income requirements. The Fund intends to treat the income it derives from the Subsidiary as derived with respect to Fund's business of investing in the stock of Subsidiary and thus "qualifying income." If, contrary to a number of private letter rulings (PLRs) issued by the IRS to other mutual funds, upon which only the fund that received the private letter ruling can rely, the IRS were to determine such income is non qualifying, the Fund might fail to satisfy the income requirement. If for any taxable year the Fund does not qualify as a RIC, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate income tax rates without any deduction for dividends paid to shareholders, and the dividends would be taxable to shareholders as dividends (possibly as qualified dividend income) to the extent of the Fund's current or accumulated earnings and profits. In lieu of disqualification, the Fund may be permitted to pay a tax for certain failures to satisfy the asset diversification or income requirements, which, in general, are limited to those due to reasonable cause and not willful neglect. The Fund intends to limit its investment in the Subsidiary to no more than 25% of the value of its total assets in order to satisfy the asset diversification requirement.

Other tax information. This discussion of "Distributions and Taxes" is for general information only and is not tax advice. You should consult your own tax advisor regarding your particular circumstances and about any federal, state or local tax consequences before making an investment in a variable contract or the Fund.

Fund Account Information

Buying Shares

Insurance companies offer variable annuity and variable life insurance products to investors including pension plans (Contracts), through separate accounts (Insurers). When shares of the Fund are investment options of Contracts, separate accounts, and not the owners of the Contracts including group contract and pension plan certificate holders (Contract Owners), are generally the shareholders of the Fund. Shares of the Fund may also be purchased by other mutual funds (funds of funds).

Shares of the Fund are sold at net asset value (NAV). When sold in connection with Contracts, the Fund corresponds with the investment options offered by the Insurer to Contract Owners. The board of trustees monitors the Fund for the existence of any material irreconcilable conflicts of interest between different types of their separate account investors. If there were any such conflicts, the board of trustees will determine what action, if any, shall be taken in response. Please refer to the accompanying contract prospectus for information on how to select the Fund as an investment option.

Contract Owners' payments will be allocated by the insurance company separate account to sub-accounts that purchase shares of the Fund corresponding with the sub-account chosen by the Contract Owner, and are subject to any limits or conditions in the contract. Requests to buy shares are processed at the NAV next calculated after we or our designees receive the request in proper form. Please refer to your Contract prospectus or other disclosure document for further information. The Fund does not issue share certificates.

Selling Shares

An Insurer that holds shares of the Fund in connection with a Contract sells shares of the Fund to make benefit or surrender payments or to execute exchanges (transfers) between investment options under the terms of the Contract.

Exchanging Shares

Contract Owners may exchange interests in sub-accounts of an insurance company separate account that corresponds with shares of any one class or Fund, for interests in sub-accounts that correspond with shares of other classes or Fund, subject to the terms and any specific limitations on the exchange (or "transfer") privilege described in the Contract prospectus.

Frequent exchanges or excessive trading can harm performance and interfere with Fund portfolio management or operations and increase Fund costs. The Funds discourage short-term or excessive trading and may seek to restrict or reject such trading (please see "Fund Account Information - Market Timing Trading Policy," below).

Market Timing Trading Policy

The board of trustees has adopted the following policies and procedures with respect to market timing (Market Timing Trading Policy):

Market timing generally. The Fund discourages and does not intend to accommodate short-term or frequent purchases and redemptions of fund shares, often referred to as "market timing," and asks its Fund of Fund investors and participating Insurers for their cooperation in trying to discourage such activity in their separate accounts by Contract Owners and their financial advisors. The Fund intends to seek to restrict or reject such trading or take other action, as described below, if in the judgment of the Fund manager or transfer agent such trading may interfere with the efficient management of the Fund's portfolio, may materially increase the Fund's transaction costs, administrative costs or taxes, or may otherwise be detrimental to the interests of the Fund and its shareholders.

Market timing consequences. If information regarding trading activity in the Fund or in any other Franklin Templeton fund or non-Franklin Templeton fund is brought to the attention of the Fund's investment manager or transfer agent and based on that information the Fund or its investment manager or transfer agent in their sole discretion conclude that such trading may be detrimental to the Fund as described in this Market Timing Trading Policy, the Fund may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which an Insurer or a Fund of Funds may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund). In determining what actions should be taken, the Fund's transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund or its shareholders. If the Fund is a "fund of funds," the Fund's transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

In considering trading activity, the Fund may consider, among other factors, trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership.

Market timing through Insurers. *As a Contract Owner you are also subject to this policy*. An Insurer's order for purchases and/or redemptions pursuant to a Contract Owner's instructions (including purchases and/or redemptions by an exchange or transfer between the Fund and any mutual fund) are submitted pursuant to aggregated orders (Aggregated Orders). A fund of fund's order for purchases and/or redemptions pursuant to its investors' instructions are also submitted pursuant to Aggregated Orders. While the Fund will encourage Insurers and funds of funds to apply the Fund's Market Timing Trading Policy to their investors, the Fund is limited in its ability to monitor the trading activity or enforce the Fund's Market Timing Trading Policy because Insurers and funds of funds have the relationships with, and are responsible for maintaining the account records of, the individual investors. For example, should it occur, the Fund may not be able to detect market timing that may be facilitated by financial intermediaries or made difficult to identify in the Aggregated Orders used by Insurers and Fund of Fund investors.

Therefore, the Fund or its agent selectively monitor the Aggregated Orders used by Insurers and Fund of Fund investors for purchases, exchanges and redemptions in respect of all their investors and seek the cooperation of Insurers and Fund of Fund investors to apply the Fund's Market Timing Trading Policy. There may be legal and technological limitations on the ability of an Insurer or Fund of Fund to impose trading restrictions and to apply the Fund's Market Timing Trading Policy to their investors through such methods as implementing short-term trading limitations or restrictions, assessing the Fund's redemption fee (if applicable) and monitoring trading activity for what might be market timing. As a result, the Fund may not be able to determine whether trading by Insurers or funds of funds in respect of

their investors is contrary to the Fund's Market Timing Trading Policy.

Risks from market timers. Depending on various factors, including the size of the Fund, the amount of assets the portfolio manager typically maintains in cash or cash equivalents and the dollar amount and number and frequency of trades and the types of securities in which the Fund typically invests, short-term or frequent trading may interfere with the efficient management of the Fund's portfolio, increase the Fund's transaction costs, administrative costs and taxes and/or impact Fund performance.

In addition, if the nature of the Fund's portfolio holdings exposes the Fund to "arbitrage market timers," the value of the Fund's shares may be diluted if redeeming shareholders receive proceeds (and buying shareholders receive shares) based upon net asset values which do not reflect appropriate fair value prices. Arbitrage market timing occurs when an investor seeks to take advantage of the possible delay between the change in the value of a mutual fund's portfolio holdings and the reflection of the change in the fund's net asset value per share. A fund that invests significantly in foreign securities may be particularly vulnerable to arbitrage market timing. Arbitrage market timing in foreign investments may occur because of time zone differences between the foreign markets on which the Fund's international portfolio securities trade and the time as of which the Fund's NAV is calculated. Arbitrage market timers may purchase shares of the Fund based on events occurring after foreign market closing prices are established, but before calculation of the Fund's NAV. One of the objectives of the Trust's fair value pricing procedures is to minimize the possibilities of this type of arbitrage market timing (please see "Fund Account Information - Valuation - Foreign Securities – Potential Impact of Time Zones and Market Holidays").

Since the Fund may invest significantly in securities that are, or may be, restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid (relatively illiquid securities), the Fund may be particularly vulnerable to arbitrage market timing. An arbitrage market timer may seek to take advantage of a possible differential between the last available market prices for one or more of these relatively illiquid securities that are used to calculate the Fund's net asset value and the latest indications of market values for those securities. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibilities of this type of arbitrage market timing (please see "Fund Account Information - Fair Valuation – Individual Securities" under the heading "Fund Account Policies", below).

The Fund is currently using several methods to reduce the risk of market timing. These methods include:

- seeking the cooperation of Insurers and funds of funds to assist the Fund in identifying potential market timing activity;
- committing staff to selectively review on a continuing basis recent trading activity in order to identify trading activity that may be contrary to the Fund's Market Timing Trading Policy;
- monitoring potential price differentials following the close of trading in foreign markets to determine whether the application of fair value pricing procedures is warranted; and
- seeking the cooperation of financial intermediaries to assist the Fund in identifying market timing activity.

Though these methods involve judgments that are inherently subjective and involve some selectivity in their application, the Fund seeks to make judgments and applications that are consistent with the interests of the Fund's shareholders. There is no assurance that the Fund or its agents will gain access to any or all information necessary to detect market timing in Insurers' separate accounts. While the Fund will seek to take actions (directly and with the assistance of Insurers) that will detect market timing, it cannot represent that such trading activity can be minimized or completely eliminated.

Revocation of market timing trades. Transactions placed in violation of a Fund's Market Timing Trading Policy or exchange limit guidelines are not necessarily deemed accepted by the Fund and may be cancelled or revoked by the Fund, in full or in part, as soon as practicable following receipt by the Fund and prompt inquiry of the intermediary.

Involuntary Redemptions

The Fund reserves the right to close an account (and involuntarily redeem any investment) if it is deemed to have engaged in activities that are illegal (such as late trading) or otherwise believed to be detrimental to the Fund (such as market timing), to the fullest extent permitted by law and consistent with the best interests of the Fund and its shareholders. Thus, for example, if upon inquiry the Fund and insurance company identify a contract owner that has engaged in late trading or market timing activities, the Fund may advise the insurance company that it will not accept future investments, or is redeeming any investment related to that contract owner. Involuntary redemptions may be in cash or in kind.

Fund Account Policies

CALCULATING SHARE PRICE

When they buy and sell shares, the Fund's shareholders pay and receive the net asset value (NAV) per share.

The value of a mutual fund is determined by deducting the fund's liabilities from the total assets of the portfolio. The NAV per share of a class of the Fund is determined by dividing the net asset value of the Fund's share class by the applicable number of shares outstanding of that share class. The Fund's NAV does not include any fee or sales charge imposed by variable insurance contracts for which the Fund is an investment option or funds of funds that purchase shares of the Fund. Investors should consult the contract prospectus, disclosure document or Fund of Funds prospectus for more information.

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled early close, the Fund's share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time.

When determining the NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange (including exchange-traded funds), the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third party pricing vendors to monitor for events materially affecting the value of these securities during this period. If an event occurs, the third party pricing vendors will provide revised values to the Fund.

To the extent that a Fund is invested in one or more open-end investment management companies (mutual

funds), a mutual fund's net asset value is calculated based on the net asset value of the mutual fund last determined by the mutual fund, as described in its prospectus.

FAIR VALUATION - INDIVIDUAL SECURITIES

Since the Fund may invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Fund has procedures, approved by the board of trustees, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. The board of trustees oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Funds could obtain the fair value assigned to a security if they were able to sell the security at approximately the time at which a Fund determines its NAV per share.

SECURITY VALUATION - U.S. PASS-THROUGH SECURITIES, CMO, ABS, MBS

Mortgage pass-through securities (such as Ginnie Mae, Fannie Mae and Freddie Mac), other mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs) and asset-backed securities (ABS), generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services. The Fund's pricing services use valuation models or matrix pricing to determine current value. In general, they use information with respect to comparable bond and note transactions, quotations from bond dealers or by reference to other securities that are considered comparable in such characteristics as rating, interest rate, maturity date, option adjusted spread models, prepayment projections, interest rate spreads and yield curves. Matrix pricing is considered a form of fair value pricing.

SECURITY VALUATION - CORPORATE DEBT SECURITIES

Corporate debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. The Fund's pricing services uses independent quotations from bond dealers and bond market activity to determine current value.

SECURITY VALUATION - SENIOR SECURED CORPORATE LOANS

Senior secured corporate loans with floating or variable interest rates generally trade in the over-the-counter market rather than on a securities exchange. The Fund may value these portfolio securities by utilizing quotations from loan dealers and other financial institutions, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. These pricing services may utilize independent market quotations from loan dealers or financial institutions and may incorporate valuation methodologies that incorporate multiple bond characteristics. These characteristics may include dealer quotes, issuer type, coupon, maturity, weighted average maturity, interest rate spreads and yield curves, cash flow and credit risk/quality analysis.

SECURITY VALUATION – MUNICIPAL SECURITIES – MATRIX PRICING (FAIR VALUATION)

Municipal securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund's pricing services use valuation models or matrix pricing to determine current value. In general, they use information with respect to comparable bond and note transactions, quotations from bond dealers

or by reference to other securities that are considered comparable in such characteristics as rating, interest rate and maturity date. Matrix pricing is considered a form of fair value pricing.

SECURITY VALUATION - OPTIONS

The Fund values actively traded call options at their market price as determined above. The current market value of any option the Fund holds is its last sale price on the relevant exchange before the Fund values its assets. If there are no sales that day or if the last sale price is outside the bid and ask prices, the Fund values options within the range of the current closing bid and ask prices if the Fund believes the valuation fairly reflects the contract's market value.

VALUATION - FOREIGN SECURITIES - COMPUTATION OF U.S. EQUIVALENT VALUE

The Fund generally determines the value of a foreign security as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of the close of trading on the NYSE, if earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE (generally 1:00 p.m. Pacific time) on the day that the value of the foreign security is determined. If no sale is reported at that time, the foreign security will be valued within the range of the most recent quoted bid and ask prices. Occasionally events (such as repatriation limits or restrictions) 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 of trustees.

VALUATION – FOREIGN SECURITIES – POTENTIAL IMPACT OF TIME ZONES AND MARKET HOLIDAYS

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be completed well before the close of business on the NYSE on each day that the NYSE is open. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a foreign portfolio security held by the Fund. As a result, the Fund may be susceptible to what is referred to as "time zone arbitrage." Certain investors in the Fund may seek to take advantage of discrepancies in the value of the Fund's portfolio securities as determined by the foreign market at its close and the latest indications of value attributable to the portfolio securities at the time the Fund's NAV is computed. Trading by these investors, often referred to as "arbitrage market timers," may dilute the value of the Fund's shares, if such discrepancies in security values actually exist. To attempt to minimize the possibilities for time zone arbitrage, and in accordance with procedures established and approved by the board of trustees, the investment managers monitor price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts (ADRs), futures contracts and exchange-traded funds).

These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that might call into question the availability (including the reliability) of the values of foreign securities between the times at which they are determined and the close of the NYSE. If such an event occurs, the foreign securities may be valued using fair value procedures established and approved by the board of trustees. In certain circumstances these procedures include the use of independent pricing services. The intended effect of applying fair value pricing is to compute an NAV that accurately reflects the value of a Fund's portfolio at the time that the NAV is calculated, to discourage potential arbitrage market timing in Fund shares, to mitigate the dilutive impact of such attempted arbitrage market timing and to be fair to purchasing, redeeming and existing shareholders. However, the application of fair value pricing procedures may, on occasion, worsen rather than mitigate the potential dilutive impact of shareholder trading.

In addition, trading in foreign portfolio securities generally, or in securities markets in a particular country or countries, may not take place on every NYSE business day. Furthermore, trading takes place in various foreign markets on days that are not business days for the NYSE, and on which the Fund's NAV is not calculated. Thus, the calculation of the Fund's NAV does not take place contemporaneously with the determination of the prices of many of the

foreign portfolio securities used in the calculation. If events affecting the last determined values of these foreign securities occur (determined through the monitoring process described above), the securities will be valued at fair value determined in good faith in accordance with the Fund's fair value procedures established and approved by the board of trustees.

SHARE CLASSES

Class 2 and Class 5 shares of the Fund are identical except that Class 2 and Class 5 each have a distribution plan or "rule 12b-1" plan, as described below for Class 5 shares and in the prospectus for Class 2 shares.

Distribution and service (12b-1) fees Class 5 has a distribution plan, sometimes known as a rule 12b-1 plan, that allows the Fund to pay distribution fees to those who sell and distribute Class 5 shares and provide services to shareholders and Contract Owners. Because these fees are paid out of Class 5's assets on an on-going basis, over time these fees will increase the cost of an investment, and may cost you more than paying other types of sales charges. The maximum amount payable under the Fund's Class 5 rule 12b-1 plan is 0.10% per year of the Fund's Class 5 average daily net assets. A portion of the fees payable to Franklin Templeton Distributors, Inc. (Distributors) or others under the rule 12b-1 plan may be retained by Distributors for distribution expenses.

Subject to applicable law, the board of trustees may from time to time, without the approval, vote or consent of shareholders of the Fund or any class, combine, merge or otherwise consolidate the shares of two or more classes of shares of the Fund with and/or into a single class of shares of the Fund, with such designation, preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other characteristics as the board of trustees may determine. Such transactions may be effected through share-for-share exchanges, transfers or sales of assets, shareholder in-kind redemptions and purchases, exchange offers, or any other method approved by the board of trustees.

ADDITIONAL POLICIES

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.
- At any time, the Fund may establish or change investment minimums.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice to insurance company or Fund of Fund shareholders, or as otherwise provided by law.
- Purchases of shares of the Fund (including the purchase side of an exchange) may be made only when such shares are eligible for sale in the appropriate state or jurisdiction.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law.
- To permit their investors to obtain the current price, participating insurance companies and funds of funds are responsible for transmitting all orders to the Fund promptly.

Questions

More detailed information about the Trust and the Fund's account policies can be found in the Fund's SAI. If you have any questions about the Fund, you can write to us at One Franklin Parkway, P.O. Box 7777, San Mateo, CA 94403-7777. You can also call us at 1-800/362-6243 (a toll-free number). For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

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FRANKLIN TEMPLETON
INVESTMENTS

FOR MORE INFORMATION

For information on the Fund, including a free copy of the Fund's prospectus and Statement of Additional Information, and the Fund's Annual and Semiannual Reports, contact your financial advisor or the insurance company offering your Contract.

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

Not all Funds and classes are available in all Contracts. For information on the terms of investment in a Contract, please consult the Contract prospectus that accompanies this Fund prospectus.

You can learn more about the Fund in the following documents:

Annual/Semiannual Fund Reports to Shareholders

Include a discussion of recent market conditions and Fund strategies that significantly affected Fund performance during its last fiscal year, financial statements, detailed performance information, portfolio holdings and, in the annual report only, the Independent Registered Public Accounting Firm's report.

Statement of Additional Information (SAI)

Contains more information about the Fund, its investments, policies, and risks. It is incorporated by reference into (is legally a part of) this prospectus.

You also can obtain information about the Funds by visiting the SEC's Public Reference Room in Washington, DC (phone 1-202/551-8090) or the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, 100 F Street, N.W., Washington, DC 20549-1520 or by electronic request at the following email address: publicinfo@sec.gov.

Investment Company Act file #811-05583

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