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FRANKLIN VALUEMARK FUNDS

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FRANKLIN VALUEMARK FUNDS

ANNUAL REPORT

December 31, 1997

When selecting a portfolio, there are two things you may wish to consider: 1) your investment objective; and 2) the degree of risk with which you feel comfortable. Before you make these decisions, you may want to review the investment strategy pyramid pictured to the right. The base of the pyramid represents investments emphasizing stability and preservation of capital. Moving up the pyramid, the categories reflect a greater focus on potential investment return -- categories that generally entail a greater degree of investment risk as well. Of course, you should review the Franklin Valuemark Funds prospectus for more information about a specific option.

INVESTMENT STRATEGY PYRAMID

Capital Growth Fund+
Mutual Discovery Securities Fund+
Natural Resources Securities Fund*
Small Cap Fund+
Templeton Developing Markets
Equity Fund+
Templeton Global Growth Fund+
Templeton International
Equity Fund+
Templeton International
Smaller Companies Fund+
Templeton Pacific Growth Fund+

Growth and Income Fund+
Income Securities Fund+
Mutual Shares Securities Fund+
Real Estate Securities Fund
Rising Dividends Fund+
Templeton Global
Asset Allocation Fund+
Utility Equity Fund+ **

High Income Fund
Templeton Global
Income Securities Fund
U.S. Government Securities Fund
Three Zero Coupon Funds -
maturing in 2000, 2005, 2010

Money Market Fund+
Allianz Life Fixed Account++

*Effective May 1, 1997, the fund's name changed from Precious Metals Fund to Natural Resources Securities Fund.

**Effective May 1, 1998, the Utility Equity Fund will change its name to the Global Utilities Securities Fund and the percentage of foreign securities the portfolio may invest in will increase from 25% to 100%. The portfolio's objective will remain the same.

+Investment options available under Valuemark Income Plus (VIP).

++The Allianz Life Fixed Account is only available in the Franklin Valuemark deferred annuity. As of February 1, 1998, the Allianz Life Fixed Account for Franklin Valuemark II and III is not available in New York and Washington. For Franklin Valuemark IV, the Fixed Account is not available in Oregon.

The following funds are not available in Allianz Value Life: Mutual Discovery Securities, Capital Growth, Templeton International Smaller Companies and the three Zero Coupon Funds.

For service regarding your contract, please contact your investment representative. You may also call 1-800/624-0197 (Franklin Valuemark deferred variable annuity), 1-800/774-5001 (VIP), or 1-800/342-FUND (Franklin Valuemark Funds). To ensure the highest quality of service, telephone calls to or from a Valuemark service center may be monitored, recorded, and accessed. These calls can be determined by the presence of a regular beeping tone.

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TECHNOLOGY UPDATE:

FRANKLIN TEMPLETON

COMBATS THE YEAR 2000 PROBLEM

By Charles B. Johnson, President of Franklin Resources, Inc.

As we near the 21st century, Franklin Templeton is taking important steps to tackle the computer glitch dubbed the Year 2000 Problem, Y2K, or the Millennium Bug. The problem originated from the software designers' attempt to save memory by recording years in a two-digit format -- "98" instead of "1998", for example -- but didn't take into account that the year 2000 or "00", could also be interpreted as 1900. Uncorrected, this problem could prevent computers from accurately processing date-sensitive data after 1999.

Franklin Templeton's Information Services & Technology division established a Year 2000 Project Team that has already begun making the necessary software changes to help ensure that our computer systems, which service the funds and their shareholders, will be Year-2000 Compliant. As changes reach completion, we will conduct comprehensive tests to verify their effectiveness. We will also require all of our major software or data-services suppliers to be Year-2000 Compliant.

In addition, with an estimated 80% of businesses facing the Year 2000 Problem, mutual fund portfolio managers must be aware of the impact it could have on companies in their portfolios. That's why Franklin Templeton portfolio managers consistently keep this issue in mind while selecting investments and managing their portfolios.

LETTER TO CONTRACT OWNERS

Dear Contract Owner:

If there is one single word that can sum up global market conditions in 1997, it has to be "volatility." Though benign inflation and declining interest rates led to strong economic activity, in one of every three trading days in 1997 the Dow Jones(R) Industrial Average rose or fell by 1% or more. Even so, many financial assets rose in value, with returns surpassing historical levels, and the Dow reveled in a meteoric rise. Knowing that no securities market can advance forever, many investors were asking, "When will this market correct?"

The answer came on October 27, 1997. Prior to this date, much of the volatility of 1997 was rooted in the financial troubles of several Southeast Asian nations, culminating in a series of currency devaluations. On July 2, 1997, Thailand threw in the towel and let the markets determine the value of its currency. This action was quickly followed by similar currency devaluations in Malaysia, the Philippines and Indonesia. By Halloween week, the mighty roar of the Asian "Tigers" dwindled to a sickly meow as Hong Kong's Hang Seng Index experienced a 5.8% drop on October 26th. The effect was widespread: the Dow tumbled 554 points

(or 7.2%), the largest percentage decline since "Black Monday" 1987. In Brazil, where the equity market had been up 70% for the year, the index plummeted 15% in a knee-jerk reaction to the drop on Wall Street. The European stock markets also reacted, coming off anywhere between 2% and 6% the following day.

Though the outlook for the Asian economies is uncertain at this time, we anticipate that their woes implicate slower growth in the U.S. To begin with, the rash of currency devaluations in Asia signifies an erosion of purchasing power there. Consumers in those nations may no longer be able to afford as many American products as in the recent past -- it now takes significantly more of their local currency to equal one U.S. dollar. As American products have now become relatively expensive to Asian consumers, there could very well be a drop in U.S. exports to that region. On the other hand, this also means that products from these Asian countries will be cheaper for American consumers. This drop in the prices of some goods implies a lessening of inflationary pressures in the U.S.

The crucial issue is to what extent the U.S. economy will be affected by the Asian slump. Will it merely take the steam out of inflationary pressures simmering just below the surface, or is it enough to initiate a spiral of deflating prices? It is interesting to note that the authorities in the U.S. -- such as the Federal Reserve Board -- still have a fair amount of flexibility to handle the threat of deflation from Asia. We believe that low inflation, a strong dollar and a low budget deficit mean that interest rates can be lowered further and taxes could be cut to stimulate demand.

In other parts of the world, the Asian crisis is also forcing emerging markets governments to tackle significant structural reforms. This is particularly true in Brazil, where the Real Plan has been successful in temporarily achieving relative price stability and positive economic growth. However, as shown by the experience in Asia, fixed exchange rate policies are not a good long-term solution, and major structural reforms are required to maintain economic stability. Important reforms are currently being discussed, but we think these are unlikely to be implemented during 1998.

It is important to remember, then, that securities markets can and will correct -- in our opinion, it is desirable for them to do so. No one is able to predict exactly how they will perform in the future. For this reason, we urge you to exercise patience and focus not on short-term market movements, but on long-term investment goals.

Regardless of the market's direction, Franklin Templeton's disciplined investment strategy remains the same: all of our portfolio managers are dedicated to providing you with careful investment selections, broad diversification, and constant, professional supervision. As always, we appreciate your support, welcome your questions and comments, and look forward to serving your investment needs in the years ahead.

Sincerely,

Rupert H. Johnson, Jr.
/s/Rupert H. Johnson, Jr.
Director and Vice President
Franklin Valuemark Funds

PORTFOLIO OBJECTIVES AND RISKS

A WORD ABOUT RISK

All of the portfolios are subject to certain risks. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. Stocks, and other equities representing an ownership interest in a company, have historically outperformed other asset classes over the long term, but tend to fluctuate more dramatically over the shorter term. Bonds and other debt obligations are affected by changes in interest rates and the creditworthiness of their issuers. High yield, lower-rated ("junk") bonds generally have greater price swings and higher default risks. Foreign investing, especially in developing countries, has additional risks such as changes in currency values, market price swings, and political, economic or social instability. These and other risks to which particular portfolios may be subject -- such as specialized industry sectors or use of complex securities -- are discussed in the prospectus.

PORTFOLIOS SEEKING CAPITAL GROWTH

PORTFOLIO	DESCRIPTION
CAPITAL GROWTH FUND	Seeks capital appreciation with current income as a secondary consideration. The portfolio invests primarily in U.S. equity securities, including common stocks and securities convertible into common stocks.

MUTUAL DISCOVERY
SECURITIES FUND

Seeks capital appreciation by investing in U.S. and foreign equity securities, including common and preferred stocks and securities convertible into common stocks, as well as debt obligations of any quality. The portfolio also seeks to invest in securities of domestic and foreign companies involved in mergers, consolidations, liquidations and reorganizations.

NATURAL RESOURCES
SECURITIES FUND*
(FORMERLY PRECIOUS
METALS FUND)

Seeks capital appreciation through concentration of its investments in securities of U.S. and foreign issuers that produce, refine, process, or market natural resources as well as those that provide support services for natural resources companies. The portfolio's secondary objective is to provide current income return through the receipt of dividends or interest from its investments. Lower-rated and similar non-rated securities, commonly known as "junk bonds," have higher credit risks and may have greater price movements. Foreign securities involve special risks, including currency fluctuations and political uncertainty; developing markets involve higher risks.

*Effective May 1, 1997, the Precious Metals Fund's name changed to the Natural Resources Securities Fund.

SMALL CAP FUND

Seeks long-term capital growth. Under normal market conditions, the portfolio invests primarily in equity securities of small capitalization growth companies. The portfolio may also invest in foreign securities, which involve special risks. Small company securities may have greater price swings than mid-sized or large company securities.

TEMPLETON DEVELOPING
MARKETS EQUITY FUND

Seeks long-term capital appreciation. The portfolio seeks to achieve this objective by investing primarily in equity securities of issuers in countries having developing markets. The portfolio is subject to special and higher risks related to foreign developing markets, including changes in currency values, market price swings, and economic, social, and political developments in the countries where the portfolio.

TEMPLETON GLOBAL
GROWTH FUND

Seeks long-term capital growth; any income realized will be incidental. The portfolio seeks to achieve its objective through a flexible policy of investing in stocks and debt obligations of companies and governments of any nation, including developing. Investments in foreign securities involve special risks including changes in currency values, market price swings, and economic, social, and political developments in the countries where the portfolio is invested. Developing markets involve similar but higher risks.

TEMPLETON INTERNATIONAL
EQUITY FUND

Seeks long-term capital growth. Under normal market conditions, the portfolio will invest at least 65% of its total assets in an internationally diversified portfolio of equity securities. These equity securities will trade on markets in countries other than the U.S., including developing markets, and be issued by companies domiciled in countries other than the U.S., or companies that derive at least 50% of either their revenues or pre-tax income from activities outside the U.S. Investments in foreign securities involve special risks including changes in currency values, market price swings, and economic, social, and political developments in the countries where the portfolio is invested. Developing markets involve similar but higher risks.

TEMPLETON INTERNATIONAL
SMALLER COMPANIES FUND

Seeks long-term capital appreciation. The portfolio seeks to achieve this objective by investing primarily in equity securities of smaller companies outside the U.S., including developing markets. Investments in foreign securities involve special risks including changes in currency values, market price swings,

and economic, social, and political developments in the countries where the portfolio is invested. Developing markets involve similar but higher risks. Small company securities may have greater price swings than mid-sized or larger company securities.

TEMPLETON PACIFIC
GROWTH FUND

Seeks long-term capital growth. Under normal conditions, the portfolio will invest at least 65% of its assets in equity securities which trade on markets in the Pacific Rim, including developing markets, and which are issued by companies domiciled in the Pacific Rim or companies that derived at least 50% of either their revenues or pre-tax income from activities in the Pacific Rim. For purposes of the portfolio's 65% investment policy, the countries in the Pacific Rim include Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, the Philippines, Singapore and Thailand. The portfolio invests primarily in a single geographical region of largely developing foreign markets and could experience significant changes in share price in any given year.

PORTFOLIOS SEEKING GROWTH AND INCOME

PORTFOLIO DESCRIPTION

GROWTH AND INCOME FUND

Seeks capital appreciation. The portfolio's secondary objective is to provide current income return. The portfolio pursues capital appreciation by investing primarily in U.S.] common stocks, securities convertible into common stocks and preferred stocks.

Income Securities Fund

Seeks to maximize income while maintaining prospects for capital appreciation. The portfolio will pursue its objective by investing in a diversified portfolio of domestic and foreign (including developing markets) debt obligations, which may include high yield, high risk, lower-rated bonds, as well as equity securities, selected with particular consideration of current income production along with capital appreciation. Lower-rated and similar non-rated securities, commonly known as "junk bonds," have higher credit risks and may have greater price movements. Foreign securities involve special risks, including currency fluctuations and political uncertainty; developing markets involve higher risks.

MUTUAL SHARES
SECURITIES FUND

Seeks capital appreciation with income as a secondary objective by investing in equity securities, including common and preferred stocks and securities convertible into common stocks, as well as debt obligations of any quality. The portfolio may also invest in foreign securities which involve special risks. Small company securities may have greater price swings than mid-sized or large company securities.

REAL ESTATE SECURITIES FUND

Seeks capital appreciation, with a secondary objective of earning current income on its investments. The portfolio pursues its principal objective by concentrating in securities of companies in the real estate industry, primarily equity real estate investment trusts (REITs). By investing primarily in a single industry, the portfolio will be more affected by unfavorable developments or market downturns in that industry than a more diversified portfolio.

Rising Dividends Fund

Seeks capital appreciation and current income incidental to capital appreciation. In seeking capital appreciation, the portfolio invests with a long-term investment horizon. Preservation of capital is also an important consideration. The portfolio seeks its objectives by investing at least 65% of its net assets in financially sound companies that have paid consistently rising dividends based on the investment philosophy that the securities of such companies have a strong potential to increase in value.

TEMPLETON GLOBAL ASSET
ALLOCATION FUND

Seeks a high level of total return through a flexible policy of investing in the following market segments: equity securities of issuers of any nation, debt obligations of companies and governments of any nation, and Money Market Instruments. The mix of investments among these three asset classes will be adjusted in an attempt to capitalize on total return potential produced by changing economic conditions throughout the world. Investments in foreign securities involve special risks including changes in currency values, market price swings, and economic, social, and political developments in the countries where the portfolio is invested. Developing markets involve similar but higher risks.

UTILITY EQUITY FUND

Seeks both capital appreciation and current income by concentrating investments in the securities of companies in the public utilities industry. The portfolio pursues its objective by investing at least 65% of total assets in securities of issuers engaged in the public utilities industry, which includes the manufacture, production, generation, transmission and sale of gas and electric energy and water. Assets may also be invested in issuers engaged in the communications field, including entities such as telephone, telegraph, satellite, microwave and other companies providing communication facilities for the public benefit. The portfolio may also invest in foreign securities, which involve special risk considerations, including currency fluctuations and political uncertainty; developing markets involve similar but higher risks. Because the portfolio may invest in relatively few issuers, changes in the value of a particular issuer, interest rate movements, changes in currency values and other risks of foreign investing may have a greater effect on the portfolio's results.

PORTFOLIOS SEEKING CURRENT INCOME

PORTFOLIO DESCRIPTION

HIGH INCOME FUND

Seeks a high level of current return. As a secondary objective, the portfolio seeks capital appreciation to the extent consistent with its principal objective. The portfolio may invest in both debt obligations and dividend-paying common or preferred stocks, including high risk \ securities, and will seek to invest in whatever type of investment is offering the highest yield and expected total return without excessive risk at the time of purchase. Lower-rated and similar non-rated securities, commonly known as "junk bonds," have higher credit risks and may have greater price movements.

TEMPLETON GLOBAL INCOME
SECURITIES FUND

Seeks high current income, consistent with preservation of capital, with capital appreciation as a secondary consideration. The portfolio will pursue its objectives by investing at least 65% of its net assets in both domestic and foreign debt obligations including those in developing markets and related foreign currency transactions. The portfolio may invest in relatively few issuers; therefore, changes in the value of a particular issuer, interest rate movements, changes in currency values and other special risks of foreign investment may have a greater effect on the portfolio's results.

U.S. GOVERNMENT
SECURITIES FUND

Seeks to earn income through investments in a portfolio limited to securities which are obligations of the U.S. government, its agencies or instrumentalities. These obligations may include fixed-rate or adjustable-rate mortgage backed securities. Individual securities, but not shares of the portfolio, are guaranteed by the U.S. government as to timely payment of principal and interest.

THREE ZERO COUPON FUNDS

Seek to provide as high an investment return as

(MATURITY DATES:
SEEKS TO 2000, 2005, 2010)

is consistent with the preservation of capital. Each portfolio return a reasonably assured targeted dollar amount, predictable at the time of investment, on a specific target date in the future by investing primarily in zero coupon securities that pay no cash income but are acquired by the portfolio at substantial discounts from their value at maturity. In response to interest rate changes, zero coupon securities may experience greater changes in market value than interest-paying securities of similar maturity. The portfolios may not be appropriate for short-term investors or those who intend to withdraw money before the maturity date.

PORTFOLIO SEEKING PRESERVATION OF CAPITAL AND INCOME

PORTFOLIO	DESCRIPTION
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Money Market Fund	Seeks to obtain current income consistent with capital preservation and liquidity. An investment is neither insured nor guaranteed by the U.S. government. The portfolio will seek to maintain a \$1 per share net asset value, but there is no guarantee that it will be successful in doing so.
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PORTFOLIO SUMMARIES

You may find a complete listing of the portfolio's securities holdings including the number of shares and dollar value beginning on page 62 of this report.

PORTFOLIOS SEEKING CAPITAL GROWTH

CAPITAL GROWTH FUND

The most notable event that occurred over the reporting period was the situation that unfolded in Asia with a torrent of currency devaluations, resulting in some significant turbulence in global equity markets. The effects of the Asian problem will have ramifications on economic growth in countries throughout the world, including the United States. While the magnitude of this effect won't be apparent for some time, various estimates by economists suggest the impact might be approximately 0.5% of U.S. gross domestic product (GDP). Prior to the events in Asia, estimates of GDP growth for 1998 were in the range of about 3 - 3.5%, but new estimates are now in the range of 2.5 - 3%. Although various economic scenarios could result from the fallout from Asia, one certainty is the slowdown in overall corporate profits here in the U.S.

We believe that the Capital Growth Fund, while not completely immune to this slowing growth, is positioned in such a way that it will hopefully weather the volatility better than the overall market. Based on next year's earnings estimates, the portfolio's weighted average price/earnings multiple is less than the market's, but the weighted average estimated earnings growth of the portfolio holdings is much better than the overall market's. With that said, though, it should be pointed out that the portfolio's over-weighting in technology stocks does lead to periods of disruption from time to time. This was especially true this past fall when concerns over Asia had a more pronounced effect on such stocks than on the broader markets. However, it is our belief that this sector will continue to provide tremendous opportunities for the growth of capital in the years ahead.

Our focus during the year in the technology sector included the addition of two companies in the software group, Parametric (a mechanical design automation company) and Computer Sciences (a data services firm). These companies have much greater exposure to the European nations (an area we think has good prospects) as opposed to Asia, and are clear leaders in their respective markets, enjoying fairly high returns on capital deployed in the business.

A number of the portfolio's positions performed very well during the reporting period, including Charles Schwab (a diversified financial services firm), AES (an independent power producer, with projects worldwide), Wal-Mart (a major retailer), Compaq (a leading computer hardware firm), Southwest Airlines (a regional airline), and Robert Half International (a temporary staffing business), to name a few.

At the same time, during any given period there will be a variety of companies that do not perform up to expectations for near-term results. Such was true with companies like 3Com (an undisputed leader in the fast-growing data-networking space), Xilinx (a leading provider of custom-programmed semiconductors), Nike (arguably the world's number-one shoe company), and Oracle (a leading software developer of database management systems). In each individual case, our respective industry analyst, in conjunction with our team of portfolio managers,

analyzes the long-term growth prospects of the company relative to an assessment of valuation. Unfortunately, near term volatility can be disruptive to one's focus on the long-term growth of capital. In the management of your portfolio, we try not to lose sight of the long term during the day-to-day volatility. Instead, we view volatility as an opportunity to purchase what we may deem to be the stocks of outstanding businesses at reasonable valuations.

Our overall outlook for the domestic stock market remains bullish over the long-term for a variety of reasons. First, there remains the demographic trend of the aging "baby-boom" generation, fostering greater awareness towards investing for retirement. Another major reason for our optimism with the market is that, as we live in an ever-increasing global economy, many domestically domiciled firms, with an enhanced focus on shareholder value and improving profitability, are proving to be highly productive on a worldwide basis. We believe that this favorable trend will persist for some time.

CAPITAL GROWTH FUND

Top 10 Industries on 12/31/97
Based on Total Net Assets

INDUSTRY	% OF TOTAL NET ASSETS
Electronic Technology	11.3%
Software & Technology Services	10.1%
Health Technology	9.7%
Financial Services	7.8%
Consumer Non-Durables	6.3%
Oil & Gas	5.2%
Semiconductors	4.9%
Utilities	4.2%
Chemical	3.8%
Producer Manufacturin	3.4%

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

AGGREGATE TOTAL RETURN

Since Inception (5/1/96) 19.40%

Please see Important Endnotes To Performance Information on page 54.

GRAPHIC MATERIAL 1 OMITTED - SEE APPENDIX AT END OF DOCUMENT

MUTUAL DISCOVERY SECURITIES FUND

The Mutual Discovery Securities Fund seeks capital appreciation by investing primarily in domestic and foreign equity securities. These include common and preferred stocks, securities convertible into common stocks, as well as debt obligations of any quality. On December 31, 1997, 79.5% of the portfolio's assets were invested in equity securities, 3.4% in fixed-income securities, and the remaining 17.1% in short-term and other securities. Of course, these holdings will change as conditions warrant.

Many stock indices were delivering astronomical returns during the first half of 1997 (the S&P 500 (R) gained more than 20%), tempting some investors to jump in and ride the market with an index fund. However, we believe that our value approach is a better way to achieve consistent, long-term appreciation with relatively low risk and low volatility. Even though indexing could lead to greater returns over a specific time period, this could place the investor on a perilous journey to mediocre returns and high volatility when market conditions are less favorable. The mix of our investments -- cheap stocks, bankruptcies, and special situations such as mergers and spin-offs -- is intended to provide the best risk-adjusted returns in a wide variety of market conditions.

1. Source: Bloomberg. Index is unmanaged and includes reinvested dividends.

It has become increasingly difficult of late to find cheap stocks, especially in the domestic market, as investors look to "buy the dips" and are willing to buy stocks at historically high valuations. As a result, most of the large names that dominate indices such as the S&P 500 currently trade at valuations that do not fit our investment strategy. But cheap buys still exist. In the U.K., investors embraced the privatization of Railtrack, realizing the importance of lessening the burden of government regulation.

We continue to find good value in the European markets, particularly in the smaller and mid-cap stocks rather than the large cap stocks. This year will be an exciting one in Europe given the scheduled, albeit somewhat limited, introduction of the eurocurrency on January 1, 1999. Direct Pacific Rim exposure was virtually non-existent at year-end, but we are now looking to see whether the recent carnage has created an opportunity for us within the context of our usual investment parameters.

We also anticipate that the markets will present us with many opportunities over the next year. For instance, it appears that many investors have largely ignored the fact that some companies may not achieve analysts' aggressive earnings estimates. In particular, the "Asian flu" may have a greater ripple effect on some companies than the market has reflected. The merger and acquisition environment as well as divestiture activity continues to be strong. Even so, we will not "push the envelope" and increase the risk profile of our portfolio.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-Year	19.25%
Since Inception (11/8/96)	18.77%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 2 OMITTED - SEE APPENDIX AT END OF DOCUMENT

GRAPHIC MATERIAL 3 OMITTED - SEE APPENDIX AT END OF DOCUMENT

NATURAL RESOURCES SECURITIES FUND
(FORMERLY PRECIOUS METALS FUND)

The year under review saw periods of heightened market volatility, especially for the natural resources sector. Three main factors contributed to the increased volatility. First, despite favorable fundamentals, the energy sector was negatively impacted by fears of a warm winter season and a higher OPEC production quota combined with increased Iraqi output. A wave of profit taking only served to magnify the correction at year-end. Another significant cause of volatility was the currency turmoil in Asia, which negatively impacted commodity-related companies as fears of a global economic slowdown surfaced. Finally, a perceived lack of inflation created a psychological overhang in numerous sectors, including steel, forest products, gold and base metals.

Despite the potential for continued volatility, our outlook for 1998 remains positive. We believe the portfolio is well positioned to take advantage of sector volatility, as we shift our focus among various sectors while concentrating on specific company drivers. The portfolio continues to invest in well-managed companies with fast-growing, highly efficient, technologically advanced operations throughout the energy, mining, steel, chemicals, forest products and related service industries. We do not purchase investments based solely on the assumption that commodity prices will rise. Rather, we invest in companies that we believe will fare well even in a flat-to-declining commodity price environment, due to rapid production growth, asset or technological edge and/or lower costs.

We anticipate a favorable environment for the energy sector, particularly in exploration, production and oil field service companies. The portfolio therefore maintains its 50%+ exposure to this group, although that can change. Exploration and production companies should offer significant upside potential as additions to reserves and production impact the bottom line. Even with flat to declining energy prices, many companies should witness a doubling of production over the next several years, as well as significant reserve additions. We maintain our focus on industry leaders who should benefit from a balanced strategy of lower-risk development drilling and higher-risk, exploration potential. In the oil field services and equipment sector, supply and demand fundamentals continue to support above average earnings and cash flow growth, and capital expenditure budgets remain steady. Replacement costs and technological barriers impede new competition, while industry fragmentation will only add fuel for the dominant players through consolidation.

During 1997, the price of gold bullion slid below \$300 per ounce, negatively impacting the portfolio's holdings in the precious metals sector. In the face of European Union convergence, strong equity markets and virtually nonexistent

inflationary pressures, many central banks proceeded to sell off their gold reserves. Later in the year, Asian demand suffered a steep decline stemming from the currency crises there. These factors adversely affected investor sentiment, despite positive physical demand fundamentals. Short-side and aggressive options selling also conspired to depress the gold price further. Over the longer term, we continue to view the resilient physical demand (especially from developing countries) and stable mined supply as attractive, and therefore remain optimistic that gold will eventually appreciate in value.

Several niche sectors performed strongly during the year, including the offshore segment of the oil field services and equipment industry. Oil field services and equipment companies provide the equipment, technology, and often the know-how for the upstream sector to carry out the exploration, development and production of oil and natural gas. In part, the desire to reduce costs and improve the efficiency of exploration and production drives the demand for services and equipment. Technology and superior assets play a significant role in the industry due to the direct impact companies can have on the success of their customers. Recent advancements in technology including 3-D seismic, subsea production, and automated drilling systems have opened up new areas of the world to oil and natural gas exploration. In particular, deep water offshore areas have been relatively unexplored to date and offer significant opportunities for the upstream sector. Diamond Offshore Drilling, Inc. and Varco International, Inc. are two portfolio holdings that we believe are ideally suited to benefit from the current trends in this arena.

Diamond Offshore is a leading provider of offshore contract drilling with one of the newest, most technologically advanced fleets in the world. The company's fleet includes 30 semi-submersibles, 15 jack-ups, and 1 drill-ship, 6 of which are capable of drilling wells nearly a mile beneath the sea. We believe that continued interest in deep water exploration will keep the demand for Diamond's premium rigs strong, allowing earnings to grow at a rate in excess of 50% per year over the next two years. Similarly, Varco is a leading manufacturer of products to improve the safety and productivity of the drilling process. Varco's focus on the offshore drilling fleet should position the company to benefit from the upgrade of existing rigs and the construction of new offshore rigs. The company's extensive experience and commitment to research and development has enabled them to create an advanced product line which includes top drives, automated pipe handling equipment, and leading-edge rig control systems. Despite the company's impressive growth outlook (estimated at 40% per annum) over the next three years and leading industry position, at the time this report was written, the shares traded at a discount to the earnings multiple of the Standard & Poor's 500(R) Stock Index.

In closing, we believe that as we enter 1998, many natural resources industries offer attractive risk/reward profiles when compared to the overall equity market. Our focus will continue to be on companies expected to benefit from superior growth prospects which are trading at attractive valuation levels relative to their industry peers and the overall market.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year	-18.98%
5-year	5.65%
Since Inception (1/24/89)	3.06%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 4 OMITTED - SEE APPENDIX AT END OF DOCUMENT

SMALL CAP FUND

Amidst favorable economic conditions, the U.S. equity markets performed well for the third consecutive year, reaching new highs during the period ended December 31, 1997. On a relative basis, larger capitalization stocks performed better than small cap stocks throughout the year, in part due to investors entering more liquid securities as a refuge from market volatility. Economic and currency deterioration throughout Asia weighed heavily on the markets in the fourth quarter, and certainly contributed to the increased volatility.

Notwithstanding the recent large-cap bias of the market, we remain bullish on the small cap sector, and are finding no shortage of attractively priced growth stocks. Despite recent weakness in the technology and energy sectors, the portfolio has maintained much of its exposure in these areas, which we think will provide excellent long-term growth opportunities. Our largest single position is Varco International, Inc., a rapidly growing provider of equipment for off shore, deep water drilling rigs. Varco should benefit from ongoing capital spending by the large oil and gas companies. We are also optimistic about several names in the technology service sector, including Synopsys, Inc., a maker of design automation software for use in the production of semiconductor

chips, and Affiliated Computer Services, Inc., a leading provider of information processing services.

Throughout the year, we took advantage of the market volatility to sell certain positions that, in our opinion, were fundamentally overvalued. During the year, we reduced our stake in Labor Ready, Inc., a temporary employment company, and liquidated our position in Adaptec, Inc., a maker of hardware and software that increases the speed of data transmission. In addition, we took profits in two semiconductor names, Linear Technology and Altera Corp., due to concerns about declining growth rates.

Going forward, we continue to believe that the prospects for small cap stocks are excellent. Relative valuations for small caps remain below historical averages, and most small companies have little exposure to overseas markets, limiting the impact from any Asian turmoil. The domestic economy remains strong, and there appears to be little threat of inflationary pressure. We believe these conditions provide the opportunity for small caps, and the portfolio in particular, to provide attractive returns over the long term.

GRAPHIC MATERIAL 5 OMITTED - SEE APPENDIX AT END OF DOCUMENT

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Average Annual Total Return

1-year¹ 7.42%
Since Inception (11/1/95) 22.45%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 6 OMITTED - SEE APPENDIX AT END OF DOCUMENT

TEMPLETON DEVELOPING MARKETS EQUITY FUND

While six months ago we reported strong gains in emerging market equity prices, underpinned by high capital inflows from developed market countries, we have since witnessed the development of a major currency and equity market crisis in emerging market countries.

The main crisis began with the devaluation of the Thai baht in July 1997, then spread to most of Asia and on to other emerging markets around the world. The devaluation of currencies had a domino effect on the equity markets of the region because so many companies and governments had borrowed U.S. dollars heavily, attracted by the low dollar interest rates being offered during the last few years. Having been assured by their governments that the exchange rates of their local currencies against the U.S. dollar would not change, these borrowers assumed little or no currency risk. The contagion effect of falling currencies thus had a disastrous impact on the cost of paying back the U.S. dollar loans, putting many companies into bankruptcy and thus affecting the banking systems in those countries. The rush for cash then consumed equity market prices in a wild melee of selling, the likes of which has not been seen for many years. As of December 31, 1997 the Thai market was down 88% in U.S. dollar terms from its all time high. Enormous falls from all time highs have also been seen in Korea (-83%), Malaysia (-69%), and Pakistan (-54%).² Many other countries in Asia have seen equity prices fall by more than 50% from all time highs. This growing crisis has naturally had an adverse effect on the performance of the portfolio.

2. Source: Bloomberg.

Although it held out for quite some time, even Hong Kong's equity market eventually fell victim to the Asian virus. Hong Kong stocks fell by nearly 30% in October, precipitating a sell-off in both emerging and developed markets around the world.³ Such a dramatic drop in a market regarded as a safe-haven was surprising. It was brought about by a vigorous speculative attack on the Hong Kong dollar peg to the U.S. dollar, which sent overnight inter-bank rates in the Special Administrative Region soaring. Although the speculative pressure has now eased somewhat, the Hong Kong government faces a dilemma. If it continues to peg its currency to the U.S. dollar, it risks further speculative attacks and upward pressure on interest rates. This has already had an impact on the local stock market that was accompanied by declines in property prices. Of course, there are dramatic implications for a banking sector in Hong Kong heavily geared towards the property sector. In light of this, Moody's Investors Service downgraded the outlook for Hong Kong banks from positive to negative. If, on the other hand, the government floats the Hong Kong dollar, it risks spiraling inflation and pushing the economy into recession. A difficult choice, to be sure, but given the underlying health of the economy we believe that the government has made the right decision in sticking to its U.S. dollar peg. In our opinion however, inflation will have to come down over the long term in Hong Kong to a level well

below that of the U.S., or the currency peg will need to be abandoned.

3. Source: Bloomberg. Price depreciation measured in Hong Kong dollars.

Despite such a large drop in the stock markets of developing countries, there is no need to panic. History has shown that the best time to buy stocks is when prices have suddenly and dramatically declined. We believe the crisis has created some exceptional opportunities in markets and individual stocks that were previously overvalued. Many stocks in markets such as Thailand are ridiculously cheap at current levels. That is not to say that they will not fall any further; rather, we think that they represent excellent opportunities for long-term investors. Having swallowed the bitter medicine of devaluation, many of the countries in Asia are well placed for an export-led recovery despite higher imported raw material costs. The crisis has also forced many governments to address some much needed structural changes and exercise a good deal more fiscal restraint. To take advantage of these opportunities, we have been selling in Latin American and Eastern European markets that have been less affected by the crisis and buying in Asia where prices have been most affected.

By the end of 1997, the portfolio had less than 10% of total net assets held in cash reflecting the exceptional number of buying opportunities that we have been able to locate. In contrast to many top-down portfolios that are holding very high cash levels we are close to being fully invested. This is consistent with our methodology of buying when other people are selling and when we find good value. We are confident that from a five-year perspective, the portfolio contains some exceptional bargains. Our largest holding remains Brazil, which accounts for 11.5% of the portfolio. The proportion of the portfolio held in Thailand has risen from 2.2% one year ago to 5.1% as of December 31, 1997.

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Average Annual Total Return

1-yea	-8.72%
3-year	4.49%
Since Inception (3/15/94)	2.31%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

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GRAPHIC MATERIAL 8 OMITTED - SEE APPENDIX AT END OF DOCUMENT

Templeton Global Growth Fund

With regard to the portfolio, exposure to any industry or country is merely a consequence of where we uncovered undervalued companies around the globe. Over the course of the year, the outcome of that search for bargain stocks led to two major changes in the portfolio's country weighting. The first was a decline in the exposure to the U.S. market, which represented about 23% of the portfolio's total net assets on December 31, 1997, compared with 29.1% at the end of last year. Quite simply, it has grown increasingly difficult for us to find undervalued investments in America, and a number of our holdings at the beginning of the year have appreciated to levels that we feel fully reflect the company's long-term fundamentals. As a result, we have sold our positions in financial stocks such as Merrill Lynch, Fannie Mae and Citicorp. We did add to newer bargain investments including IBP, Inc., a meat packaging company, and AT&T, the long distance telephone provider.

The market has not suffered a meaningful decline in over 10 years, and -- overall -- the U.S. market today sells at a high earnings multiple with near record low dividend yields and record-high price-to-book value. Long-term earnings expectations are at near-record highs as investors appear to be projecting the past six years of strong growth onto the future. Yet, much of the past earnings were achieved through lower taxes and interest expense that may be difficult to repeat going forward. This is especially true in an environment where pricing remains difficult, and the American consumer is burdened with substantial levels of debt. While these observations are of little value in predicting a decline, we have never made it a practice of trying to time markets. Instead, we try to invest in companies where share prices are well below our opinion of their intrinsic values, based on the long-term fundamentals. For these reasons, it is more difficult to find such companies in the U.S. today.

The second noticeable shift in the portfolio's country weightings was the doubling of our exposure to the U.K. In Britain, we are finding higher dividend yields and lower share prices relative to earnings when comparing British companies with their competitors around the world. Among the new additions to the portfolio are Courtaulds Plc., a chemical manufacturer, and National Grid Holdings Plc., the operator of the country's electricity transmission grid. In

continental Europe, strong share price appreciation helped our performance but has also pushed up valuations. We have therefore reduced our exposure to banks in Sweden and Spain. Many of the companies we continue to hold in the region are those that have not yet fully realized the benefits of restructuring.

While the market declines in China and Hong Kong have certainly hurt our performance, we began the year with about 9% of the portfolio's total net assets in Asia and have been underweight in the region for some time because of generally high valuation levels. Recent events have provided a welcome opportunity to increase our Asian holdings. We are not ignoring the risks and problems that the region faces, but are systematically and rationally determining when undue concerns are reflected in share prices. This was the approach we took after the Mexican peso crisis when we invested in South American companies. As was the case in South America, oftentimes we are initially too early and this may prove to be the case with some of the stocks we are now cautiously buying in Asia. However, laying the foundation for future long-term performance requires both fortitude and patience.

GRAPHIC MATERIAL 9 OMITTED - SEE APPENDIX AT END OF DOCUMENT

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return	

1-year	3.50%
3-year	15.77%
Since Inception (3/15/94)	13.19%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 10 OMITTED - SEE APPENDIX AT END OF DOCUMENT

TEMPLETON INTERNATIONAL EQUITY FUND

The primary reason for the portfolio's level of performance this year was its absence from the poorly-performing Japanese market as well as a relatively light weighting in Southeast Asia in general. European markets, where the majority of the portfolio's assets were invested, achieved attractive returns for equity investors. These returns, however, were somewhat offset by the dollar's strength versus many European currencies.

Toward the end of 1997, investors began to focus on Asia, as many of the currency and stock markets were in the throes of severe disruptions. Fortunately for the portfolio's shareholders, we had very low weightings in this region. Accordingly, the direct impact on the portfolio of these markets' collapsing values was rather limited. On December 31, 1997, less than 4% of the portfolio's total net assets were invested in Asia. With share prices in this region falling to distress levels, we are scouring the Asian stock markets for opportunities to purchase bargain-priced stocks. Finding stocks that have both healthy balance sheets and the possibility of rebounding strongly from the current Asian economic malaise has proven challenging thus far. As share and currency values continue to fall, however, we anticipate that our holdings in Asia will rise -- perhaps significantly.

Concerns over events in Asia also impacted share prices in Latin America, with the Brazilian market suffering the most significant damage. This occurred when fears surfaced that the excesses being uncovered in Asia might also be found in Brazil. Many investors became concerned that Brazil might be forced to devalue its currency which, in turn, might lead to a collapse of share values due to rising dollar-denominated debt on corporate balance sheets. In fact, Brazilian corporations generally have little debt, and the recipe for financial disaster in Asia of property speculation and mis-allocated capital spending does not exist in Brazil. Consequently, we took the opportunity to significantly increase our holdings of Brazilian shares when that market sold off sharply based on fears of Brazil's catching the "Asian flu." We added to our positions in Unibanco (Uniao de Bancos Brasileiros) and Telebras (Telecomunicacoes Brasileiras), and established new positions in Electrobras (Centrais Electricas Brasileiras) and Petrobras (Petroleo Brasileiro). Because the Brazilian government responded aggressively with appropriate policies to the growing concerns about its currency, it was able to stave off devaluation. This impressive performance was quickly rewarded with a sharp rebound in share prices starting in mid-November. Should Latin American stocks suffer any further declines as a result of the global economic concerns, it is possible that we would seek to increase our holdings further. We expect the longer-term economic performance of the region to respond positively to the privatizations and economic reforms being implemented in many Latin American countries.

The portfolio's substantial exposure to European equities contributed greatly to its performance during the year. Most European markets performed very well in 1997, and many of the shares the portfolio held benefited from this bullish

trend. Our largest exposure in Europe, and indeed in the portfolio in general, is in the United Kingdom, where we identified many stocks selling at prices that we considered low in relation to the earnings these companies may achieve in the longer term. On December 31, 1997, 22.4% of the portfolio was invested in U.K. equities. Recently, we added positions in ICI, Storehouse, and General Electric to our U.K. holdings. Sweden also features prominently in our European exposure, comprising 5.5% of the portfolio's total net assets. We have been reducing our cyclical exposure in the portfolio as of late, and this has resulted in selling some of the portfolio's Swedish positions. Many cyclical shares, particularly those in Europe, may be negatively affected by excess supply from depressed and low-cost Asian countries. Companies such as Solvay, Arbed, Pechiney and Renault are some of the European cyclicals that have been eliminated from the portfolio during this process. As the portfolio is currently structured, it is slightly underweighted in European equities relative to the MSCI-EAFE Index and is particularly underweighted in Germany, France and Switzerland. These three countries have performed very well in recent years and it is becoming difficult to identify bargain priced stocks there.

We believe the outlook for international equities over the longer term is bright. Many of the difficult issues now facing Asian economies will result in changes that will enhance the possibility of achieving attractive long-term investment returns. As trade and labor markets move in the direction of greater freedom, governments withdraw from interfering in industrial policy decisions and companies rely more heavily on signals from the capital markets in setting expansion plans, better corporate earnings performance should be achieved. In the short term, the process of moving toward these ideals can result in volatile markets. Accordingly, by December 31, 1997, the portfolio had built up its cash reserves to 20.6% of total net assets in anticipation of deploying these funds as outstanding bargains materialize.

GRAPHIC MATERIAL 11 OMITTED - SEE APPENDIX AT END OF DOCUMENT

WE ARE REPLACING THE MSCI EAFE INDEX WITH THE MSCI ALL COUNTRY WORLD EX-U.S. FREE INDEX. BECAUSE THE NEW INDEX INCORPORATES SECURITIES OF EMERGING MARKETS AS WELL AS DEVELOPED MARKETS, IT BETTER MATCHES THE INVESTMENTS OF THE FUND.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return	

1-year	11.69%
5-year	14.51%
Since Inception (1/27/92)	11.65%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 12 OMITTED - SEE APPENDIX AT END OF DOCUMENT

Templeton International Smaller Companies Fund

Throughout the year, the portfolio, using a disciplined focus on long-term value, continued its endeavor to purchase the shares of undervalued, small-cap companies outside the U.S. As of December 31, 1997, the portfolio had over \$32 million in assets under management and was invested in 36 countries.

Our European positions contributed significantly to the portfolio's performance over the past year. In preparation for European Monetary Union, many nations exercised restraint in their fiscal and monetary policies. Members of the E.U. have been running tight budgetary policies for several years now so that they may qualify for monetary union under the stringent guidelines set forth in the Maastricht Treaty. This has led to the current environment where subdued inflation has paved the way for economic recovery. Along with trends of consolidation and corporate restructuring stemming from a need to remain competitive in an increasingly international marketplace, these factors propelled many European stock markets to record levels.

For example, the stock markets of the U.K., Spain, Sweden, Switzerland, and the Netherlands all climbed more than 28% in local currency terms during 1997.4

4. Source: Bloomberg. Index is unmanaged and includes reinvested dividends. Total return measured in local currencies.

The portfolio's large European positions reflect the bargains our analysts are uncovering there. We believe that many European shares, especially those of smaller companies, offer compelling value. For instance, we purchased shares in Hazlewood Foods during the year, a U.K.-based food processing company. We were able to acquire shares of Hazlewood at attractive valuations after investor pessimism over increased retailer price pressure and the BSE (mad cow disease)

scare depressed the stock price. These concerns were very real, but the stock price plummeted to levels beneath what we felt represented fair value, as they failed to reflect the company's positive long-term business prospects. Another example is Bertrand Faure, a French car seat manufacturer. With an ongoing restructuring in Bertrand's German operations not fully reflected in the stock price, we were able to pick up shares in a firm that eventually should benefit from trends toward outsourcing, sophisticated car seats, and vehicles with more seats (e.g., sport utility vehicles).

While Asia suffered from an epidemic of currency devaluations (and various side-effects) this year, relatively modest exposure to the poorest-performing markets tempered their effect on the portfolio. Since we had viewed Asian markets as somewhat high-priced prior to these crises, the portfolio's value-orientation dictated only a minor allocation in this region. Our largest investment in Asia was (and continues to be) Hong Kong, which was largely unaffected by the contagion until October. At that time, worries mounted that in order for its products to remain competitive, the Special Administrative Region would abandon its U.S. dollar peg and let its currency devalue as well. The Hong Kong equity market swooned in the process, but we had steadily reduced our weighting there following the July handover of the former British colony to China.

We will continue to be circumspect in our approach to Asian shares, focusing on firms that have strong cash flow, low leverage, established franchises, and skilled, experienced management teams. This focus on quality drew us to Hong Kong in particular. Li & Fung, a high-quality company with a very strong balance sheet and a forward-thinking, sophisticated management team, is an example of a company that we have targeted. Li & Fung manages manufacturing programs for companies involved in the production of labor-intensive consumer goods. While the company trades at bargain levels, its net cash position, realistic strategy, and sound business provide a level of quality that is especially important during periods of volatility. Giordano, a Hong Kong-based retailer of "value for the money" casual apparel is yet another example of a financially solid Asian firm that meets our bargain criteria. Investors fled the company over concerns regarding ongoing difficulties in the firm's Chinese operations. While China is clearly a risk, these concerns appear overblown to us in light of Giordano's strong brand name, successful business model and cash stockpile.

Latin American markets performed quite well during the year. While markets did sell off in the latter part of 1997 in response to the Asian crisis, the high debt problems associated with Asian companies are less prevalent in Latin America. Consequently, we may be able to locate attractive, high-quality smaller companies for the portfolio. One example is Petroleo Ipiranga, a Brazilian company that distributes petroleum and diesel fuel to gas stations in that country. The company has an attractive balance sheet and should be a beneficiary of strong growth as Brazilians begin to purchase more automobiles and drive more frequently in an economy expected to see better long-term stability.

Looking forward, we will continue to assess the Asian economy and its impact on companies around the world. While we are confident that the recent market corrections present opportunities, we are cautious in our approach, and will limit our investments to high-quality companies where we feel that the stock price does not adequately reflect the company's long-term intrinsic value. Therefore, we expect that the largest concentration of the portfolio's assets should remain in Europe, where we continue to uncover attractive small-cap stocks.

GRAPHIC MATERIAL 13 OMITTED - SEE APPENDIX AT END OF DOCUMENT

WE ARE REPLACING THE MSCI EAFE INDEX WITH THE SALOMON WORLD EX-U.S. EXTENDED MARKET INDEX. BECAUSE THE NEW INDEX INCORPORATES SECURITIES OF SMALLER COMPANIES AND SECURITIES OF EMERGING, AS WELL AS DEVELOPED, MARKETS WE BELIEVE IT BETTER MATCHES THE INVESTMENTS OF THE FUND.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year -1.50%
Since Inception (5/1/96) 6.35%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

TEMPLETON PACIFIC GROWTH FUND

In the past year, Asian financial markets experienced a period of severe volatility and intense corrections. Sparked by speculative attacks on the Thai baht before July, a rash of currency devaluations quickly infected much of the continent. By late October, Indonesia, Malaysia, Pakistan, the Philippines, Singapore, South Korea, Taiwan and even Australia and Hong Kong had been

significantly affected by downward pressure on their currencies and falling equity prices. This experience had the side effect of highlighting macroeconomic problems present in many of these nations, such as slowing export growth, rising deficits, overvalued property markets, and weak banking systems.

The downward spiral of Asian equity markets adversely affected the portfolio's performance during the year. Hardest hit were the markets of Thailand, which fell 52% over the year, Malaysia, 51%, and the Philippines, 40%.⁵ Hong Kong continued to be the portfolio's largest exposure, accounting for 32% of total net assets on December 31, 1997. Even though its economic fundamentals remained strong during the year, its stock market suffered significant declines in a volatile environment. On December 31, 1997, the Hang Seng Index was 20% lower than it had been on December 31, 1996, after surviving a 35% decline from August to the end of 1997.⁶ Still, such corrections often produce an atmosphere where we can discover undervalued securities. One stock we believed to be undervalued was Hong Kong Ferry Holdings, which operates ferry and related businesses, and is involved with other activities such as property investment and travel and hotel operations. Due to its attractive valuation, we added to our existing holdings of this stock in 1997.

5. Source: Bloomberg. Index is unmanaged and includes reinvested dividends. Total return measured in local currencies. 6. Source: Bloomberg. Price depreciation measured in Hong Kong dollars.

Despite an extremely strong year for China's economy, we saw signs of a slowdown toward the end of 1997. In 1998, restructuring of state-owned enterprises could cause further slowing of economic growth. Worries still abound that the outbreak of currency devaluations in neighboring countries may affect China's competitive position in exports. Consequently, we sold our holdings of Beijing Yanhua Petrochemicals for a profit during the year.

Also during the period, we initiated a position in Tata Engineering & Locomotive Co., Ltd., an Indian manufacturer of commercial automotive vehicles, which we considered undervalued. The stock of Brambles Industries Ltd., based in Australia, reached our sell-price target and we liquidated our position.

We believe that although Asian markets could experience further declines, they could also provide excellent opportunities for purchasing shares of companies unfairly punished by generalized fear about these countries' economic circumstances. In our opinion, the Pacific Rim continues to offer a variety of investment opportunities and the economies of these countries are storehouses of value in the long run.

GRAPHIC MATERIAL 14 OMITTED - SEE APPENDIX AT END OF DOCUMENT

TEMPLETON PACIFIC
GROWTH FUND
Top 10 Holdings on 12/31/97
Based on Total Net Assets

COMPANY/ INDUSTRY, COUNTRY	% OF TOTAL Net Assets
East Japan Railway Co./ TRANSPORTATION, JAPAN	3.3%
HSBC Holdings Plc./ BANKING, HONG KONG	3.2%
Cheung Kong Holdings Ltd./ REAL ESTATE, HONG KONG	3.2%
China Light & Power Co., Ltd./ UTILITIES - ELECTRICAL & GAS, HONG KONG	3.1%
Hong Kong Telecommunications Ltd./ TELECOMMUNICATIONS, HONG KONG	3.0%
Singapore Airlines Ltd./ TRANSPORTATION, SINGAPORE	3.0%
Malaysian International Shipping Corp./ TRANSPORTATION, MALAYSIA	3.0%
Pakistan Telecommunications Corp., PTC/ TELECOMMUNICATIONS, PAKISTAN	2.9%
Fauji Fertilizer Co., Ltd./ CHEMICALS, PAKISTAN	2.8%
New World Development Co. Ltd./ REAL ESTATE, HONG KONG	2.8%

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ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year -35.95%
5-year 0.71%
Since Inception (1/27/92) 0.39%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

PORTFOLIOS SEEKING GROWTH AND INCOME

GROWTH AND INCOME FUND

Throughout the year, the U.S. economy continued its steady course of moderate growth with virtually no inflation. In this benign economic atmosphere, corporate profits continued their climb and stock market valuations rose to the expensive end of their historical ranges. During the latter part of the year, however, stock markets the world over experienced a dramatic rise in volatility. Such a stark increase in market volatility came about as a result of the Asian crisis sparking fears of a slowdown in corporate earnings growth. As a result, there has been a renewed focus in global equity markets on value stocks that have defensive characteristics during turbulent times. The recent performance of the Growth and Income Fund, which has a value orientation, reflected this current trend.

In keeping with its fundamental investment approach, the portfolio seeks to invest in stocks with attractive valuations -- that is, stocks selling at bargain prices according to measurements such as relative dividend yield, book value, revenues, and normalized earnings. We often find such stocks in companies that appear to be fundamentally strong, but have experienced temporary earnings disappointments, or in companies or industries with uncertain prospects for near-term earnings growth.

We continue to believe that various utility stocks represent an investment opportunity as many companies are selling at their most attractive relative valuations in over two decades. Lack of meaningful earnings growth in recent years and uncertainty regarding the future deregulation have resulted in the industry's underperformance against the broader stock market averages over the last several years. We took advantage of this weakness to initiate a position in Entergy Corp., a New Orleans-based electric utility that offered a 6.9% dividend yield and traded at nine times our calculations of estimated earnings at the time of purchase. In the telephone utility sector, we added AT&T to the portfolio. At the time of purchase, AT&T's stock sold at 10 times depressed earnings and offered a dividend yield of over 4%. Management recently announced a major restructuring plan that should significantly reduce the company's costs.

Energy stocks remained a major investment focus for the portfolio. The combination of strong cash flows, attractive fundamentals and above-average dividend yields made many stocks in this industry ideal investment candidates for us. Moreover, we believe the rising worldwide demand for oil, in relation to exploration and production activity could lead to higher oil prices. We added to existing holdings during the reporting period -- including increasing our positions in Atlantic Richfield, Chevron, Texaco, and YPF Sociedad Anonima -- and, on December 31, 1997, this sector represented 15.1% of total net assets.

The financial sector -- the portfolio's largest sector weighting -- made an impressive showing this year, benefiting from strong fundamentals and declining interest rates. Over the reporting period, we initiated a position in the consumer finance company Beneficial Corp., and also added two insurance companies that specialize in reinsurance: Mid Ocean Ltd. and Scor. All three stocks traded at attractive valuations relative to their peers and offered above-market dividend yields.

Finally, we took advantage of recent price weakness in consumer non-durable stocks to initiate new positions in Anheuser-Busch (the largest beer brewer in the world) and H.J. Heinz (a major food producer). The management teams of both companies recently announced corporate restructurings that could result in the resumption of favorable earnings growth.

While we added to existing holdings or initiated new positions, we also reduced several positions during the reporting period. Specifically, we sold Du Pont in the chemical industry, Sprint, British Telecom and Telmex in the utilities sector, and American Home Products and Tambrands in the consumer/health sector as these stocks had reached our price objectives. All were sold at significant total return gains. Conversely, we eliminated investments in weaker-positioned electric utilities that did not meet earlier expectations. Unicom, PECO Energy, and Public Service Enterprise Group came under pressure as a result of worsening competitive and regulatory environments within their areas of operation. We, therefore, sold these holdings and reinvested the proceeds in utilities that we felt were in better competitive positions and offered greater total return potential.

Looking forward, we remain committed to our disciplined, value-oriented approach, which has historically produced consistent and favorable long-term results.

GRAPHIC MATERIAL 15 OMITTED - SEE APPENDIX AT END OF DOCUMENT

GROWTH AND INCOME FUND
Top 10 Industries on 12/31/97
Based on Total Net Assets

Industry	% of Total Net Assets
Financials	19.8%
Energy and Resource	15.1%
Consumer Staples	13.9%
Electric Utilities	10.7%
Telecommunications	10.4%
Basic Materials	10.2%
Health Care	4.5%
Gas Utilities	3.8%
Manufacturing	2.9%
Retail	2.3%

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Average Annual Total Return	
1-year	27.74%
5-year	15.61%
Since Inception (1/24/89)	11.94%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

INCOME SECURITIES FUND

Despite increased volatility in recent months, the stock and bond markets experienced another strong year in 1997, driven primarily by steady economic growth and low inflation. The stock market temporarily retreated from all-time highs toward the end of the year, in part as a result of financial and economic weakness in Asia and concerns over a potentially negative impact on the U.S. economy. The bond market also experienced some volatility during the period, but generally strengthened in the second half of 1997 as inflationary fears subsided and investors began to show a renewed interest in value and safe-haven securities. Many of the portfolio's sectors performed well over the year, with utility stocks, real estate stocks, and U.S. Treasury bonds leading the way.

General sector weightings in the portfolio did not change significantly over the past year. However, we did increase the portfolio's stock holdings from 41.1% to 45.6% of total net assets while reducing the portfolio's cash position from 6.0% to 4.9% over the year. As of December 31, 1997, 49.7% of the portfolio's assets were invested in bonds, 45.6% in stocks, and 4.7% in cash and other net assets.

Corporate bonds, which continued to be our largest fixed-income weighting, generally performed well during the year. Although corporate bond valuations were at relatively high levels in 1997, we were able to find some attractive investments in new and existing positions. We initiated several corporate bond positions during the period, including Del Monte Corp. (Food & Beverage), Paging Network, Inc. (Telecommunications), Revlon Corp. (Consumer Products), Tjiwi Kimia Finance Mauritius, Ltd. (Paper & Forest Products), ICN Pharmaceuticals, Inc. (Pharmaceuticals), and Venetian Casino Resort, L.L.C. (Gaming & Leisure). Additionally, we sold or tendered several positions at levels that we believed represented full value.

The portfolio's foreign bond positions performed well during the period despite increased volatility in foreign stock and bond markets. Over the year, we consolidated our foreign dollar-denominated Brady bond positions by swapping out of our Mexican Brady bonds and into Brazilian Brady bonds, which -- along with our Argentinian Brady bonds -- appeared to offer greater total return potential. We also took advantage of weakness in October resulting from the Asian crisis, by adding to our Brazilian Brady bond positions. Finally, we sold our Canadian bond position in May due to valuation concerns and currency risk.

Believing that subdued inflation and prospects for a balanced budget would allow interest rates to fall, we added to our holdings of U.S. Treasuries throughout the year. As a result, the portfolio benefited from the decline of the 30-year Treasury bond yield, which fell from 6.64% to 5.93% over the past 12 months. On December 31, 1997, U.S. Treasury bonds accounted for 8.3% of total net assets, up from 7.1% a year earlier.

Most of the portfolio's equity sectors performed well during the period with the real estate, pharmaceutical and utility stocks appreciating the most. We purchased several new convertible positions in the real estate sector, including Vornado Realty Trust (REIT), and Macerich Co. (REIT). These securities provide attractive income and downside protection while offering equity upside potential related to positive fundamental trends in the real estate industry. Following significant price appreciation, we sold the portfolio's remaining pharmaceutical holdings, as we believed upside potential for these stocks was limited at current valuations. The purchase and eventual sale of the pharmaceutical stocks is a good example of our contrarian style and active approach to investing, as we originally purchased the stocks when the sector was out of favor due to healthcare reform uncertainty in 1993 and 1994.

Utility stocks, which represented the portfolio's largest stock sector, rebounded after weakness in the first quarter and turned in a strong performance for the year. We initiated several new positions in the sector, including MidAmerican Energy Holdings Co., CMS Energy Corp. and Northern States Power Co., mid-western electric and natural gas utilities. Utility stocks were 26.6% of the portfolio as of December 31, 1997, up from 20.6% a year ago. We increased our weighting in utility stocks because we believed many of the stocks were undervalued and offered attractive high current income. In addition, we believe many utility stocks will benefit in a deregulated environment from stronger cash flow growth, less regulatory uncertainty, and higher valuations.

Looking at other sectors, strength in the technology stocks prompted us to recognize significant gains on the portfolio's Altera Corp. and Xilinx, Inc. convertible bond positions purchased last July during the technology sell-off. We initiated a position in General Motors common stock (Automotive) as we believed that the company's current corporate restructuring will significantly benefit shareholders. We also purchased a new issue of convertible bonds from Continucare Corp. (Health Care Services), a company specializing in outpatient rehabilitation services. In the energy sector, we took advantage of recent weakness in the group by purchasing convertible preferred shares of Energy Ventures (Energy) and Lomak Petroleum, Inc. (Energy). We also sold several stock positions that no longer fit the portfolio's valuation criteria.

With the stock market near all-time highs, we remain selective and are continually searching for attractive investments for our shareholders. We believe the portfolio is well positioned to benefit from the current market environment of low inflation and slow economic growth. Of course, we continue to follow our value-oriented approach, searching for income and growth from a diversified mix of stocks, bonds, and cash.

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Average Annual Total Return	

1-year	17.09%
5-year	12.08%
Since Inception (1/24/89)	12.34%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 16 OMITTED - SEE APPENDIX AT END OF DOCUMENT

MUTUAL SHARES SECURITIES FUND

The Mutual Shares Securities Fund seeks capital appreciation by investing primarily in domestic equity securities. These include common and preferred stocks, securities convertible into common stocks, as well as debt obligations of any quality. On December 31, 1997, 73.4% of the portfolio's total net assets were invested in equity securities, 3.7% in fixed-income securities, and the remaining 22.9% in short-term and other securities. Of course, these holdings will change as conditions warrant.

Many stock indices were delivering astronomical returns during the first half of 1997 (the S&P 500 gained more than 20%), tempting some investors to jump in and ride the market with an index fund. However, we believe that our value approach is a better way to achieve consistent, long-term appreciation with relatively low risk and low volatility. Even though indexing could lead to greater returns over a specific time period, this could place the investor on a perilous journey to mediocre returns and high volatility when market conditions are less favorable. The mix of our investments -- cheap stocks, bankruptcies, and special situations such as mergers and spin-offs -- is intended to provide the best risk-adjusted returns in a wide variety of market conditions.

7. Source: Bloomberg. Index is unmanaged and includes reinvested dividends.

It has become increasingly difficult of late to find cheap stocks, especially in

the domestic market, as investors look to "buy the dips" and are willing to buy stocks at historically high valuations. As a result, most of the large names that dominate indices such as the S&P 500 currently trade at valuations that do not fit our investment strategy. But cheap buys still exist. In the U.K., investors embraced the privatization of Railtrack, realizing the importance of lessening the burden of government regulation.

We continue to find good value in the European markets, particularly in the smaller and mid-cap stocks rather than the large cap stocks. This year will be an exciting one in Europe given the scheduled, albeit somewhat limited, introduction of the eurocurrency on January 1, 1999. Direct Pacific Rim exposure was virtually non-existent at year-end, but we are now looking to see whether the recent carnage has created an opportunity for us within the context of our usual investment parameters.

We also anticipate that the markets will present us with substantial opportunities over the next year. For instance, it appears that many investors have largely ignored the fact that some companies may not achieve analysts' aggressive earnings estimates. In particular, the "Asian flu" may have a greater ripple effect on some companies than the market has reflected. The merger and acquisition environment as well as divestiture activity continue to be strong. Even so, we will not "push the envelope" and increase the risk profile of our portfolio.

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Average Annual Total Return

1-year	17.73%
Since Inception (11/8/96)	18.85%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

REAL ESTATE SECURITIES FUND

During the reporting period, the real estate industry continued to benefit from an environment of strong economic growth and relatively low interest rates. Demand for commercial and residential space remained strong, driven primarily by the growing economy. At the same time, development of new supply was restrained in most property sectors, leading to rising occupancy and rental rates. As a result, most real estate companies continued to report strong growth in cash flow from operations. Ongoing consolidation also contributed to the sector's growth, as private real estate companies and single-building owners merged with public real estate firms to take advantage of the financing flexibility and economies of scale enjoyed by the larger, public companies. For example, several of the portfolio's positions were involved in high-profile public mergers, including Starwood Lodging Corporation's announced mergers with Westin and ITT Sheraton and Equity Office Properties' merger with Beacon Properties Corporation.

Throughout the reporting period, we remained committed to our strategy of focusing on property types and geographic regions with strong supply and demand fundamentals, while attempting to identify those management teams with the ability to add value through intensive property management and strong capital markets experience. In keeping with this strategy, we maintained the majority of the portfolio's investments in hotel, apartment, office and industrial properties, where we anticipate the strongest cash flow growth, as well as the most favorable supply and demand fundamentals.

At the end of the reporting period, the hotel sector was the portfolio's largest property type weighting, representing 20.1% of total net assets, up from 17.9% twelve months ago. Valuations in this sector remain attractive to us, particularly in light of the high cash flow growth rates. New development in the upscale hotel sector remains limited while demand continues to grow, resulting in increased room rates. Over the past year, we initiated positions in two notable lodging companies: Innkeepers USA Trust and Prime Hospitality Corporation. In our opinion, both were attractively valued and offered unique growth opportunities. Core holdings in this sector continued to include FelCor Suite Hotels, Inc., Patriot American Hospitality, Inc., Starwood Lodging Corp., CapStar Hotel Company and Host Marriott Corp.

The apartment sector was the portfolio's second largest property type weighting, totaling 16.8% of total net assets on December 31, 1997, down from 20.0% one year ago. Valuations in the apartment group remain attractive relative to other sectors and we expect steady cash flow growth. However, security selection is important in this sector as supply and demand fundamentals near equilibrium. While the overall sector weighting was trimmed and several positions were eliminated, we continued to focus on core holdings such as Equity Residential Properties Trust, Camden Properties Trust and Security Capital Pacific Trust. In

addition, our only new position in the apartment sector, Charles E. Smith Residential Realty, Inc., performed quite well as investors keyed on the company's new acquisition strategy focused on downtown high-rise apartments in major metropolitan areas.

We increased the portfolio's exposure to the office and industrial property sectors over the reporting period by initiating new positions in AMB Property Corporation, Mack-Cali Realty, Equity Office Properties, Tower Realty Trust and SL Green Realty Corporation. For the most part, these companies have heavy property concentrations in the Northeast and on the West Coast where new property development is limited. We believe that these securities were attractively valued and should generate above average cash flow growth over the next few years. We also maintained core positions such as Arden Realty Group, Security Capital Industrial Trust, Spieker Properties and Highwoods Properties, Inc. As of December 31, 1997, the office sector weighting was 11.9% of total net assets, up from 7.9% one year ago. The industrial sector now represents 10.9% of total net assets, up from 8.9% at the beginning of the reporting period.

Looking forward, we believe the real estate industry should benefit from steady demand for residential and commercial space and limited new development. In our opinion, the prospects for investing in real estate securities are quite attractive due to their unique combination of strong underlying fundamentals, favorable valuations, and attractive growth opportunities.

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Average Annual Total Return	

1-year	20.70%
5-year	18.25%
Since Inception (1/24/89)	13.87%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

RISING DIVIDENDS FUND

Our investment strategy is based on our belief that companies with consistently rising dividends should, over time, also realize appreciation in their stock prices. We select portfolio securities based on several criteria. To be eligible for purchase, stocks must pass certain investment "screens," or screening procedures, requiring strong balance sheets, relatively low price/earnings ratios, and consistent and substantial dividend increases. We seek fundamentally sound companies that meet our standards and attempt to acquire them at attractive prices, often when they are out of favor with other investors.

The U.S. stock market benefited during 1997 from an economy characterized by solid growth, low inflation, and falling long-term interest rates. Financial services stocks, such as banks and insurance companies, performed particularly well in this positive atmosphere. This trend aided two of the portfolio's largest equity holdings, Mercury General Corp. and National Commerce Bancorp, which also had distinguishing attributes that contributed to their strong performance during the year. Mercury General is an automobile insurer which conducts the majority of its business in California. Mercury has been able to offer drivers attractively priced auto insurance through the combination of a strong distribution network, very effective claims handling capabilities, and a low cost structure. As a result, this firm has been able to gain market share while generating strong earnings growth.

National Commerce Bancorp. is a Tennessee-based regional bank that has become a leader in supermarket branch banking. Several years ago, the company determined that in order to be competitive, it not only had to have a very low cost structure, but also had to be able to offer top quality services to its customers. In order to achieve this, National Commerce decided that it needed to take itself to its customers, rather than waiting for its customers to come to it. And where could the bank make itself easily accessible to its customers? At their local supermarket, of course. This bank's branches are now almost exclusively located in high traffic supermarket stores -- thereby eliminating the need for costly, stand-alone facilities. Like Mercury General, National Commerce has been able to gain market share and grow earnings as well.

The retail sector also performed well for the portfolio in the past year. Our largest holding in this sector is Family Dollar Stores, a leading participant in the growing "convenience discounter" retailing segment. Earnings growth has accelerated as a result of the company's everyday low-pricing strategy, in addition to its store remodeling and expansion program. The idea of offering basic merchandise at an attractive price from a convenient location is proving to be especially popular with low and middle-income consumers.

Despite the presence of the roaring equity market, several of the portfolio's

stocks suffered sagging prices during the year. These included Millipore Corp., MMI Cos., Inc., and Nike, Inc. Millipore's earnings were hurt during the year by weak sales of microelectronics filtration equipment coupled with the negative impact on foreign currencies of the indomitable U.S. dollar. Looking ahead, Millipore continues to be well positioned to benefit from the increasing demand for greater purification technology in growing industries such as semiconductor manufacturing and biotechnology. A slowdown in medical malpractice premium growth hampered the performance of MMI stock over the year. Although the medical malpractice market is still soft, MMI has several medical consulting businesses that are growing nicely and is also likely to benefit from its recent acquisition of another insurer, Unionamerica Holdings. Although Nike has become one of the world's most recognizable brand names, its earnings have suffered from a slowdown in domestic footwear sales and, more recently, a decline in sales to Asia due to the economic crisis in that region. On the other hand, Nike continues to expand its already formidable global distribution capabilities and is extending its dominant sports-related franchise into different athletic footwear and equipment categories, which bodes well for the corporation's long-term prospects.

During the year, we added several new positions to the portfolio, such as Bemis Company, Inc., a manufacturer of flexible packaging for use by the food service industry. We also purchased shares of Pall Corp., which makes fluid filtration devices for a variety of industries, including healthcare. ReliaStar, a provider of a broad range of insurance-related investment products, has increased its dividend for 26 years, and was added to the portfolio in 1997. Finally, we initiated positions in Sherwin-Williams, a retail distributor of architectural coatings, and U.S. Bancorp., one of the top performers among regional banks.

We eliminated several positions from the portfolio during the reporting period as they no longer fit our investment criteria. Bristol-Myers Squibb Co., Gap, Inc., Monsanto Co., Pfizer, Inc., Safeco Corp., UST, Inc., and Walgreen Co. either suffered from slowing dividend growth, falling dividends, or they simply became less attractively valued than alternative investments.

Our ten largest positions on December 31, 1997, comprised 25.6% of the portfolio's total net assets. It is interesting to note how these ten companies would, in the aggregate, respond to the portfolio's screening criteria based on a simple average of statistical measures. On average, these ten companies have increased their dividends 18 years in a row, and by 345% in the last ten years (this excludes Fannie Mae's colossal 2,000% increase). Their most recent dividend increases averaged 13.7%, with a dividend pay-out ratio of 25%. Long-term debt averaged 14% of capitalization, and the average price/earnings ratio was 19.7, viewed against 21.4 for that of the unmanaged Standard & Poor's 500(R) Stock Index on the same date. It is our opinion that these companies are representative of the fundamentally high quality of the portfolio. We also believe that, over the long haul, companies that increase cash payments to shareholders, year after year, will be superior builders of wealth.

RISING DIVIDENDS FUND

Top 10 Holdings on 12/31/97

Based on Total Net Assets

Company, INDUSTRY	% of Total Net Assets
Family Dollar Stores, Inc. RETAIL	4.3%
Wallace Computer Services, Inc. BUSINESS SERVICES	3.1%
Nucor Corp., INDUSTRIAL	2.6%
Mercury General Corp., INSURANCE-PROPERTY CASUALTY	2.5%
Dimon Inc., CONSUMER PRODUCTS	2.4%
Alberto-Culver Co., CONSUMER PRODUCTS	2.2%
National Commerce Bancorp, BANKS	2.1%
Fannie Mae, FINANCIAL SERVICES	2.1%
Watts Industries, Inc., INDUSTRIAL	2.1%
RLI Corp., INSURANCE-PROPERTY CASUALTY	2.1%

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Average Annual Total Return

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1-year	33.03%
5-year	14.69%
Since Inception (1/27/92)	14.04%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 20 OMITTED - SEE APPENDIX AT END OF DOCUMENT

TEMPLETON GLOBAL ASSET ALLOCATION FUND

Volatility and uncertainty dominated global markets in 1997, most of which can be traced back to Southeast Asia's by now well-documented financial troubles that began to surface around mid year. Questions about Asia's financial future will no doubt remain unanswered for some time, although an economic recovery there will depend, to a large extent, on whether Japan finally realizes economic growth in 1998. We are carefully picking through the ashes in Southeast Asia, looking for undervalued companies with strong balance sheets that can weather the inevitable storms over the next few years.

The Hong Kong market was down over 20% in 1997 and underperformed due to the threat of a currency devaluation, the possibility of a slowdown in China, and over-extended property prices.⁸ We believe that Hong Kong will maintain the currency peg because, unlike many other Asian countries, Hong Kong has budget and current account surpluses, a robust banking system and \$70 billion in foreign currency reserves. Perhaps more importantly, it has China's support, which needs to maintain confidence in Hong Kong's capital markets so that it can use them to privatize its state-owned companies. In our opinion, the risks of a devaluation have been overly discounted, with the market trading at only 9.8 times 1998 earnings.⁹ As of December 31, 1997, the portfolio had a 2.6% weighting in Hong Kong.

8. Source: Bloomberg. Price depreciation measured in Hong Kong dollars.

9. Source: Morgan Stanley Capital International(R).

Lately, the fad for mega-mergers has reappeared across the "pond." As in the U.S., such mergers have been concentrated in the financial services area. The advent of the euro has forced banks and insurance companies to focus on pan-European economies of scale. For example, two giants of the Swiss banking market, UBS and Swiss Bank, agreed to merge in a \$25 billion transaction, and insurance companies BAT of the U.K. and Zurich of Switzerland agreed to tie the knot for \$18 billion. We invested in this trend via our insurance and financial services holdings which respectively made up 5.9% and 3.3% of the portfolio at the end of the reporting period.

The U.K. is much further ahead of continental Europe in terms of the business cycle (it is the only major country with an inverted yield curve), shareholder value and corporate restructuring. We currently favor the U.K., as it is one of the few countries that can opt in or out of the euro. It also has some of the cheapest valuations and highest yields in Europe (the average dividend yield of our U.K. holdings was 3.9% at period end) as well as political certainty. Finally, there are still opportunities for corporate restructuring in the U.K. Within our own holdings, restructuring is taking place at ICI, Harrisons and Crosfield, and BTR.

The U.S. has just completed its seventh year of economic growth. The Goldilocks economy (not too hot, not too cold) continued with moderate economic growth and inflation at an eleven-year low of 1.7%.¹⁰ At the same time the budget is moving toward its first surplus since 1969, and the dollar is regarded the safe haven in a world of uncertainty. However, our main concern is over-extended stock market valuations, which have no sympathy for earnings disappointments. On December 9, Oracle's share price declined by 29% because its second quarter profit figure of \$0.19 was 4 cents below expectations. 1997 was the third consecutive year of 20%-plus returns for the Dow Jones(R) Industrial Average, an unprecedented accomplishment.

10. Source: Bloomberg. Inflation measured as CPI year-over-year percentage change as of 12/97.

By historical measures, however, all valuations are stretched, with the S&P 500 trading at an estimated 19 times 1998 earnings, a 20-year high.¹¹ Therefore, we place more confidence in economic growth than in stock prices. Although the U.S. remains our largest single country weighting with regard to equities, accounting for 16.1% of total net assets, we have been taking profits throughout the year (the U.S. weighting at the end of 1996 was 20.8%). We are underweight versus

other benchmarks and have a high composition of undervalued and defensive stocks. Although we have not found many new U.S. bargains, the recent technology sector shakedown has turned some growth stocks into value stocks. For example, the market punished networking and modem company 3Com for disappointing earnings announcements, and the stock finished the year off 52%.¹² Although there could be further short-term disappointments, we consider this an undervalued stock, and we added to our position.

11. Source: IBES.

12. Source: Bloomberg.

On October 27, 1997, the Brazilian Bovespa index dropped 15% as concern spread regarding the overvalued currency and twin budget and current account deficits.¹³ Unlike the Asian countries however, the Brazilian government took swift action to restore confidence by doubling interest rates to 45% and announcing severe budget cuts totaling \$18 billion, or 3% of gross domestic product. We believe that Brazil will not devalue its currency because it has taken adequate measures to restore stability, and proceeds from privatization that could total \$90 billion by 2000 can finance future investment. Analysts expect this market's earnings to grow at 26%, and we have invested nearly 5% of the portfolio in Brazilian equities including Banco Bradesco, one of our largest holdings.

13. Source: Bloomberg. Price depreciation measured in Brazilian reals.

We believe that opportunities are born out of adversity, and we continue to search diligently for overlooked opportunities around the world.

GRAPHIC MATERIAL 21 OMITTED - SEE APPENDIX AT END OF DOCUMENT

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Average Annual Total Return

1-year	11.71%
Since Inception (5/1/95)	14.22%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

UTILITY EQUITY FUND*

*Effective May 1, 1998, the Utility Equity Fund will change its name to the Global Utilities Securities Fund and the percentage of foreign securities the portfolio may invest in will increase from 25% to 100%. The portfolio's objectives will remain the same.

Although the utility sector trailed some of the broad market indices this year, the S&P Electric Utilities Index actually has outperformed the S&P 500 in the fourth quarter by over 1500 basis points.¹⁴ This change in investor sentiment reflects a movement toward "safe haven" securities due to several factors. Global currency market disruptions led to earnings revisions for many corporations, thereby increasing stock market volatility. Also, evidence is building that the U.S. economy is beginning to slow down. These factors, in conjunction with the positive impact of decreased regulatory risk, made the utility sector attractive to many investors.

14. Source: Bloomberg. Indices are unmanaged and include reinvested dividends.

The U.S. economic environment during the year was generally favorable for interest-rate sensitive stocks. With long-term interest rates declining steadily since April, and relatively high natural gas prices, domestic utility stocks performed well in 1997. A favorable regulatory environment also added to this picturesque background, when -- in September -- the 8th U.S. Circuit Court of Appeals removed some of the uncertainty surrounding the Telecommunications Act of 1996, with a ruling that more clearly defined the role of new competitors. With California leading the way, several states are in the process of completing plans to restructure the electric generation business. This bodes well for the industry's future, as a complete resolution of regulatory issues should enhance utility companies' earnings, and make their stocks more attractive to investors.

With the European Monetary Union looming just around the corner, interest rates there painted a picture similar to the U.S. situation. Most European nations continued to exercise a great deal of fiscal and monetary restraint to qualify for monetary union under the Maastricht Treaty's strict criteria. Interest rates in traditionally high-yielding markets such as Spain and Italy came down significantly, moving toward convergence with the likes of Germany and France, which encouraged investors to bid up the prices of many utility stocks. Germany, Switzerland, Finland, Italy, and Portugal were among the best performing utility markets. Taking advantage of this strength, we sold our shares of Italmobiliare and Electricidade de Portugal at a profit. It is our belief that many European

utility companies are currently positioned to benefit from a large, pent-up demand for telecommunications services. In our opinion, our holdings of Telefonica de Espana and Hellenic Telecommunications Organization could experience extensive growth for several years to come.

In the first half of the year, solid economic growth and lower inflation allowed for increased infrastructure spending in Latin America. The earnings outlook for Latin American utility companies was therefore quite positive, prompting us to initiate new positions in such companies as Telefonica del Peru and Companhia Paranaense de Energia-Copel. These corporations have positioned themselves to potentially profit from the rapidly growing demand for electricity in Latin America. The economic environment in Brazil also created some promising investment opportunities, as privatization and regulatory reform in the telecommunications and electric utilities industries accelerated. This led us to purchase shares of Telecomunicacoes Brasileiras, Brazil's largest telecommunications provider.

Believing that most Asian utility stock valuations were simply too high, we maintained a low weighting in Asia during the year. This was fortunate, as the portfolio was somewhat insulated from the direct impact of the Asian problems that surfaced after June. Despite this region's turmoil, we believe that the long-term economic growth rate of many Asian countries is likely to be much higher than that of some developed markets. Most of our Asian holdings are in China, Hong Kong, and India, whose economies -- in our opinion -- still possess the ability to grow strongly over the next few years.

Looking ahead, we are optimistic about the prospects for utility companies worldwide. Given the prevailing environment of accelerating privatization and regulatory reform, utilities stocks could continue to perform well in both Europe and Latin America. As for the U.S., we think many high-quality utility companies with aggressive, entrepreneurial management have the potential to expand their operations and generate solid earnings growth. Utility companies provide services that are an essential part of peoples' lives, and it is our belief that their stocks play an integral role in a well-diversified investment portfolio.

GRAPHIC MATERIAL 22 OMITTED - SEE APPENDIX AT END OF DOCUMENT

UTILITY EQUITY FUND

Top 10 Holdings on 12/31/97
Based on Total Net Assets

Company	% of Total Net Assets
Southern Co.	4.2%
TECO Energy, Inc.	3.9%
Enron Corp.	3.8%
CINergy Corp.	3.8%
Duke Energy Corp.	3.7%
GPU Inc.	3.4%
ICG Communications, Inc.	3.3%
FPL Group, Inc.	3.3%
Florida Progress Corp.	3.2%
NIPSCO Industries	2.8%

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year	26.76%
5-year	11.56%
Since Inception (1/24/89)	12.62%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

UTILITY EQUITY FUND CHANGES OF FUND NAME
AND NON-FUNDAMENTAL POLICIES

ON MAY 1, 1998, THE FUND'S NAME WILL CHANGE TO "GLOBAL UTILITIES SECURITIES FUND." THE FUND'S CURRENT POLICY LIMITING FOREIGN INVESTMENTS TO 25% OF NET ASSETS WILL BE LIFTED, SO THAT THE FUND WILL BE AUTHORIZED TO INVEST WITHOUT LIMIT IN FOREIGN SECURITIES. The Fund's investment objective, its policy of concentrating its investments in the public utilities industry, and its other investment policies and restrictions will remain the same.

After the changes take place, the Fund will normally invest at least 65% of its total assets in issuers domiciled in at least three different countries, one of which may be the U.S. Under normal circumstances, the Fund is expected to invest a higher percentage of its assets in U.S. securities than in securities of any other single country. The Fund's Manager believes that a global utilities fund

may benefit from a wider selection of investment opportunities and greater diversification than a fund which invests primarily in securities of domestic utility companies.

The Fund's increasing investments in foreign securities will involve increasing risk. Foreign securities involve greater risks than similar domestic securities due to currency fluctuations, market volatility, and economic, social and political uncertainty. Investments in foreign developing markets involve heightened risks related to the smaller size and lesser liquidity of these markets. INVESTORS SHOULD CONSIDER CAREFULLY THE SUBSTANTIAL RISKS INVOLVED IN INVESTING IN FOREIGN SECURITIES, RISKS THAT ARE HEIGHTENED FOR INVESTMENTS IN DEVELOPING MARKETS. SEE "HIGHLIGHTED RISK CONSIDERATIONS, FOREIGN TRANSACTIONS."

WHEN REVIEWING THEIR INVESTMENTS OR CONSIDERING NEW PURCHASES OR TRANSFERS, CONTRACT OWNERS MAY WISH TO TAKE THESE UPCOMING FUND CHANGES INTO ACCOUNT AND TO CONSULT WITH THEIR INVESTMENT REPRESENTATIVES.

PORTFOLIOS SEEKING CURRENT INCOME

HIGH INCOME FUND

The "Goldilocks economy" continued its reign in the U.S. during the year under review, ensuring an environment that was "just right" for market participants. This was particularly true for holders of corporate high yield bonds, which were a top performer within fixed income asset classes in 1997. The portfolio also turned in a laudable performance for the year, fueled by bonds with improving credit profiles as well as those experiencing positive corporate events. Our investments continue to be oriented toward bonds that are expected to experience capital appreciation due to one or both of those factors.

With a keen eye focused on reducing our exposure to the economically sensitive chemicals and gaming industries, we took profits in a few positions such as IMC Global (chemicals) and Aztar (gaming). We also reduced weightings in the cable television and food retailing industries during the year, selling positions that we thought could be vulnerable to competitive threats in their respective markets.

In the media and broadcasting arena, deregulation fostered significant merger and acquisition activity, leading us to increase our exposure to the sector. During the year we initiated positions in Chancellor Media and Hollinger, companies that we think are well positioned to capitalize on positive industry trends. In the industrial sector, we increased our weighting by focusing on companies that we believe should perform well in a more subdued economic environment, such as Allied Waste Industries. The wireless communications industry also provided some attractive investment opportunities in 1997, and future prospects are bright due to ongoing market-friendly legislation. Within the various wireless industry subsectors, we tend to favor the leaders, such as Paging Network in paging, along with Sprint Spectrum and Nextel Communications in digital PCS. Finally, while increasing our weighting in telecommunications we focused primarily on competitive local exchange carriers such as Teleport and Intermedia.

As measured by Moody's, the portfolio's average credit rating on December 31, 1997, was B2. Looking forward, we expect to maintain or improve this average credit rating, anticipating somewhat of an economic slowdown over the next year. We feel that a slower-growing economy, combined with low inflation, will continue to provide a favorable environment for corporate high yield bonds.

HIGH INCOME FUND

Top 10 Industries on 12/31/97

Based on Total Net Assets

Industry	% of Total Net Assets
Wireless Communication	12.2%
Industrial Products	8.2%
Cable Television/Systems	7.5%
Media	5.7%
Health Care Services	5.4%
Telecommunications	5.4%
Broadcasting	5.2%
Gaming & Leisure	4.5%
Food & Beverage	4.2%
Transportation	4.1%

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Average Annual Total Return

1-year 11.47%

5-year	11.49%
Since Inception (1/24/89)	10.35%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

GRAPHIC MATERIAL 23 OMITTED - SEE APPENDIX AT END OF DOCUMENT
GRAPHIC MATERIAL 24 OMITTED - SEE APPENDIX AT END OF DOCUMENT

TEMPLETON GLOBAL INCOME SECURITIES FUND

The worldwide economic atmosphere made global bond investing a perilous business in 1997. In the U.S., economic growth proceeded at a pace historically associated with rising inflation and falling bond prices, causing considerable tension in the bond market. Ten-year U.S. Treasury bond yields, for example, began the year at 6.42%, rose to a high of 6.97%, and then fell to 5.74% at the end of the year.¹⁵ The U.S. dollar was equally volatile, with a number of foreign currencies depreciating between 2% and 52% against the U.S. currency.

15. Source: Bloomberg.

This volatility resulted from three distinct developments during the period. First was a general fear in the markets that the rapid U.S. economic growth and low unemployment would eventually translate into higher inflation. Second, prospects for European Monetary Union improved during the year, with many European economies converging in preparation for this event. Last, the Asian currency crisis produced shockwaves throughout global markets that should take some time to dissipate. Each of these developments affected global interest rates and currency values in different ways.

Much portfolio activity related directly to the sources of volatility in the global bond markets, particularly to foreign currencies' decline in value relative to the U.S. dollar. We also made portfolio adjustments in the composition of its European and within the dollar bloc countries. Finally, we increased the portfolios' emerging markets holdings.

Responding to the U.S. dollar's accelerating upward momentum relative to European currencies, we reduced the portfolio's overall exposure to European bonds and increased holdings of U.S. dollar-denominated bonds. We also increased the use of forward sales of European currencies, seeking to preserve the dollar value of our European bond holdings. The net currency exposure to European currencies (actual holdings plus the effect of currency hedges) was 52.8% at the beginning of the period and had fallen to approximately 46.7% by the end of the period.

We reallocated the portfolio's European holdings during the year through the sale of modest amounts of bonds from Denmark, Ireland, Italy and the United Kingdom, while the portfolio's German position was increased.

Within the dollar bloc markets, we dramatically reduced our exposure to Australia in favor of dollar-denominated Latin American securities. Our Latin American holdings, as a percentage of total net assets, nearly doubled over the course of the year, from 10.9% to 21.3%. The portfolio's largest emerging markets position as of the end of the year was in Mexico, where we increased our exposure from 4.8% to 7.1%.

In our view, a somewhat slow-growing U.S. economy in 1998 could be a major boon for global bond investors for several reasons. Of course, this could lead to reduced pressure on interest rates. In addition, though, slower growth would also tend to help foreign currencies rebound against the U.S. dollar, representing the possibility of attractive capital gains for U.S.-based investors. The Asian problem may also encourage a weakening of the dollar since it could very well lead to a widening of the U.S. trade and current account balances.

The outlook for global bond markets in 1998 seems promising to us, although patience may be required for investment opportunities to arise. The Asian financial quagmire, as an example, should serve to moderately deflate growth and inflationary pressures in the developed nations, removing the impetus for central bankers to raise interest rates.

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Average Annual Total Return

1-year	2.55%
5-yea	7.39%
Since Inception (1/24/89)	7.57%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

U.S. GOVERNMENT SECURITIES FUND

The U.S. bond market turned in a strong performance for 1997 as interest rates declined during the year. The yield curve flattened drastically -- one-year Treasury bill yields finished both 1996 and 1997 at 5.48%, while 30-year Treasury bond yields fell from 6.64% at the end of 1996 to 5.93% on December 31, 1997. The Federal Reserve Board (the Fed) moved interest rates only once during the year, when it raised the federal funds rate by 25 basis points at the Federal Open Market Committee's March meeting. While economic growth and consumer demand continued to be strong throughout the year, actual inflation figures consistently moved lower. The unemployment rate in the U.S. continued to move lower throughout the year with labor costs creeping higher. Although normally we would expect tight labor markets to give way to spiraling inflation through wage increases, large gains in productivity apparently allowed U.S. businesses to absorb higher labor costs without passing on the cost increases to consumers. Lower commodity prices also helped to keep inflationary pressures in check during 1997.

16. Source: Bloomberg.

During the middle of the year, disruptions in several developing southeast Asian economies became apparent which eventually led to ripple effects around the globe. By the fourth quarter, global equity markets swooned from the Asian debacle and U.S. government bonds became safe havens for investors, helping to push yields lower. In addition to the global situation, the strong U.S. economy served to bolster tax revenues which lowered the U.S. budget deficit and reduced the issuance of U.S. Treasury bonds into the marketplace. The lower supply of bonds also contributed to falling long-term interest rates during the year.

Lower interest rates helped the performance of the portfolio's holdings in U.S. government and agency securities. The portfolio is geared toward intermediate-term government securities and we continued to add positions across various government agencies and sectors during the year, including agency pass-through securities.

At this time, we do not anticipate that the Fed will move interest rates in the months ahead given that the Asian crisis has not yet fully played itself out. On the one hand, continued strong consumer demand may keep pressure on the Fed to move rates higher sometime next year due to the high rate of utilization in the labor and resource markets that currently exists. Then again, year-over-year inflation rates have been under 2%, which may allow long-term rates to continue moving lower, should consumer demand slow sufficiently to ultimately ease labor markets.

Therefore, we expect that the 30-year U.S. Treasury bond market may be range bound around the 5.75% to 6.25% level in the months ahead. As interest rates move to the lower end of that range, agency pass-through securities may be subject to prepayment risk, so new assets will likely be allocated to more non-callable securities until a more favorable environment develops. It is our belief that while the supply of mortgage pass-throughs should rise in the months ahead, agency issuers will continue to provide positive support to pass-through yield spreads.

As far as the Treasury market is concerned, we expect that the U.S. yield curve will continue to have a flatter profile in the months ahead. If growth slows significantly enough for the Fed to ease monetary policy, the curve may steepen. However, we anticipate that any monetary tightenings will signal to investors that the Fed is ahead of the curve in terms of inflation, and bond yields may fall in response.

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Average Annual Total Return	

1-year	9.31%
5-year	7.10%
Since Inception (3/14/89)	8.32%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

ZERO COUPON 2000 FUND
 ZERO COUPON 2005 FUND
 ZERO COUPON 2010 FUND

The past year bore witness to a substantial decline in long-term interest rates, though for a while it appeared that rates would move higher, driven by accelerating inflationary pressures. These pressures simply never materialized,

and the Federal Reserve (the Fed) raised interest rates only once during the year -- an action which eventually allowed long-term rates to come down significantly.

All three portfolios benefited from the fall in interest rates during the year. The longer portfolios enjoyed the best returns because of their high duration and the fact that longer term interest rates (10 - 30 years) fell more than intermediate term rates (2 - 5 years). This flattening of the yield curve came about because the Fed held the target rate for federal funds at 5.50% although inflation fell throughout the year allowing longer term interest rates to fall as well. Inflation, as measured by the consumer price index, year over year, is now 1.7%, the lowest level in 11 years.¹⁷ Productivity gains, global competition and moderate economic growth should be conducive to a low inflation environment.

17. Source: Bloomberg. Year-over-year as of 12/31/97.

The Zero Coupon portfolios aim to maintain investments as close to the target maturities as is practically possible. This makes changes in interest rates a highly significant factor affecting the unit value of these portfolios. With two years to maturity in the 2000 portfolio, this portfolio's value could experience an approximate 3% swing in value for every 100 basis point (1%) swing in interest rates. Likewise, the 2005 portfolio has the potential to move approximately 8% for the same change in interest rates, and the 2010 portfolio could move -- up or down -about 13%.

Normally, individual zero coupon bonds will return a fixed rate, if held to maturity. Zero coupon investments, therefore, can be attractive for both aggressive and risk-averse investors. Of course, a managed portfolio of zero coupon bonds will fluctuate with cash flow in or out of the portfolio, or vary with market conditions. In each portfolio, we strive to maintain -- at all times -- a duration within 12 months of the target maturity. We do not try to time the market; instead, our portfolio activity mirrors shareholder activity.

GRAPHIC MATERIAL 27 OMITTED - SEE APPENDIX AT END OF DOCUMENT

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year	7.11%
5-year	7.43%
Since Inception (3/14/89)	9.38%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year	11.37%
5-year	9.87%
Since Inception (3/14/89)	11.11%

GRAPHIC MATERIAL 28 OMITTED - SEE APPENDIX AT END OF DOCUMENT

WE ARE REPLACING THE MERRILL LYNCH 20-YEAR ZERO INDEX WITH THE MERRILL LYNCH 10-YEAR ZERO INDEX. BECAUSE THE FUND NOW HAS LESS THAN 12 YEARS UNTIL ITS 2010 TARGET DATE, WE THINK THE 10 YEAR INDEX BETTER MATCHES THE INVESTMENTS OF THE FUND.

PERFORMANCE SHOWN IN THE GRAPH REFLECTS ALL FUND OPERATING EXPENSES BUT DOES NOT INCLUDE ANY VARIABLE ACCOUNT FEES, CHARGES OR EXPENSES IMPOSED BY THE VARIABLE ANNUITY AND LIFE INSURANCE CONTRACTS THAT USE THE FRANKLIN VALUEMARK FUNDS. IF THEY HAD BEEN INCLUDED, PERFORMANCE WOULD HAVE BEEN LOWER. SEE THE CONTRACT PROSPECTUS FOR A COMPLETE DESCRIPTION OF THE VARIABLE ACCOUNT EXPENSES, INCLUDING ANY APPLICABLE SALES CHARGES.

Average Annual Total Return

1-year	16.57%
5-year	12.13%
Since Inception (3/14/89)	12.14%

PLEASE SEE IMPORTANT ENDNOTES TO PERFORMANCE INFORMATION ON PAGE 54.

PORTFOLIO SEEKING CAPITAL PRESERVATION AND INCOME

MONEY MARKET FUND

An atmosphere of strong economic growth and very mild inflation was prevalent in the U.S. throughout 1997. Real gross domestic product (GDP) growth through the first three quarters of the year was 3.8%, considerably outpacing the Federal Reserve's (the Fed's) targeted long-term growth rate of 2.5%. Unemployment fell to its lowest level in 25 years, as a direct result of the country's economic strength. In the spring, the fast pace of economic growth and the tightening labor markets raised some concerns at the Fed that prices might have been in danger of inching up. The Fed responded by increasing the federal funds rate by twenty-five basis points (0.25%) in late March. Since the rate hike, the Fed has remained on the sidelines, not responding to the continued economic strength for a couple of reasons. First, despite the torrid pace of GDP growth, consumer prices increased by only 1.7% in 1997 -- the lowest increase in 11 years.¹⁸ Second, the Asian financial crisis which began to shake global equity markets in October may have prevented the Fed from taking any steps which would induce further volatility into the international financial markets.

18. Source: Bloomberg. Inflation measured as CPI year-over-year percentage change as of 12/97.

The rise in short-term interest rates caused the portfolio's seven-day yield to increase from 5.04% on December 31, 1996 to 5.28% at the end of 1997.

We believe the economy is in the later stages of the current business cycle. Higher private consumption and increased capital spending should stimulate more growth, which could ultimately lead to further wage inflation. However, we think that the impact of higher wages on overall consumer prices should be dampened by ongoing improvements in manufacturing productivity and lower exports to the Far East as a result of the crisis in Asia. Taking all these factors into consideration, we believe that the Fed will remain inactive until it has fully assessed the impact of these variables on domestic economic growth and inflation.

We continue to invest the portfolio's assets in securities that are among the highest quality available to money market funds. Since the portfolio's objective is to provide shareholders with a high quality, conservative investment, we do not invest in leveraged derivatives or other potentially volatile securities that we believe involve undue risk.

REPORT OF SPECIAL MEETING OF SHAREHOLDERS

At the Special Meeting of Shareholders of Franklin Valuemark Funds held on April 4, 1997, shareholders voted as follows:

1. Regarding the election of trustees who constitute the current Board of Trustees.

<TABLE>
<CAPTION>

	Shares Voted	Shares Voted For	% of Shares Voted	Shares Voted Against	% of Shares Voted
<S>	<C>	<C>	<C>	<C>	<C>
Frank H. Abbott	972,593,525.009	948,803,887.387	97.554%	23,789,637.622	2.446%
L. C. Anderson	972,593,525.009	950,301,681.416	97.708%	22,291,843.593	2.292%
Harris J. Ashton	972,583,525.009	950,544,829.797	97.733%	22,048,695.212	2.267%
S. Joseph Fortunato	972,583,525.009	949,805,658.718	97.657%	22,787,866.291	2.343%
David W. Garbellano*	972,583,525.009	947,870,197.603	97.458%	24,723,327.406	2.542%
Charles B. Johnson	972,583,525.009	950,398,940.768	97.718%	22,194,584.241	2.282%
Charles E. Johnson	972,583,525.009	950,097,436.776	97.687%	22,496,088.233	2.313%
Rupert H. Johnson, Jr.	972,853,525.009	950,749,074.437	97.754%	21,844,450.572	2.246%
Frank W. T. LaHaye	972,853,525.009	950,680,992.891	97.747%	21,912,532.118	2.253%
Gordon S. Macklin	972,853,525.009	950,214,147.999	97.699%	22,379,377.010	2.301%

</TABLE>

*The Board noted with deep regret the passing of David W. Garbellano in late 1997. The Board appointed Robert F. Carlson to fill the vacancy in January 1998.

2. Regarding the ratification of the selection of Coopers & Lybrand L.L.P., Certified Public Accountants, as the independent auditors for the Trust for the fiscal year ending December 31, 1997.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
		% of Shares	% of Shares	% of Shares	% of Shares

Shares Voted	Shares Voted For	Voted	Voted Against	Voted	Voted abstain	Voted
972,593,525.009	915,813,515.019	94.162%	7,634,859.171	0.785%	49,145,150.819	5.053%

3. Regarding the approval of changes in the investment objective and industry concentration policy of the Precious Metals Fund to those of a natural resources fund on May 1, 1997.

<S>	<C>	<C>	<C>	<C>	<C>	<C>
		% of Shares	Shares	% of Shares	Shares	% of Shares
Shares Voted	Shares Voted For	Voted	Voted Against	Voted	Voted abstain	Voted
7,315,445.976	6,188,720.987	84.598%	663,584.104	9.071%	463,140.885	6.331%

4. Regarding the approval of a change in the fundamental investment policies of the Precious Metals Fund to permit a change from investments in precious metals commodities to natural resources commodities, and to clarify that the fund may invest in futures contracts related to such commodities.

<C>	<C>	<C>	<C>	<C>	<C>	<C>
		% of Shares	Shares	% of Shares	Shares	% of Shares
Shares Voted	Shares Voted For	Voted	Voted Against	Voted	Voted abstain	Voted
7,315,445.976	6,100,496.708	83.392%	772,291.632	10.557%	442,657.636	6.051%

5. Regarding the approval of a change in the fundamental investment policy of the Precious Metals Fund to permit a change from 5% to up to 10% of the Trust's assets that may be invested in unseasoned issuers.

<C>	<C>	<C>	<C>	<C>	<C>	<C>
		% of Shares	Shares	% of Shares	Shares	% of Shares
Shares Voted	Shares Voted For	Voted	Voted Against	Voted	Voted abstain	Voted
7,315,445.976	5,925,877.013	81.005%	900,970.326	12.316%	488,598.637	6.679%

There being no further business to come before the meeting, upon motion duly made, seconded and carried, the Meeting was adjourned.

Dated: April 4, 1997

Karen L. Skidmore
Acting Secretary

IMPORTANT ENDNOTES
TO PERFORMANCE INFORMATION

Total return of the portfolio is the percentage change in value of a hypothetical \$10,000 investment over the indicated periods and includes reinvestment of dividends and capital gains. Inception dates of the portfolios may have preceded the effective dates of the subaccounts, contracts, or their availability in all states. Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions and you may have a gain or loss when you withdraw your money.

When reviewing the index comparisons, please keep in mind that indices have a number of inherent performance differentials over the Valuemark portfolios. First, unlike the Valuemark portfolios, which must hold a minimum amount of cash to maintain liquidity, indices do not have a cash component. Second, the Valuemark portfolios are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indices are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indices often contain a different mix of securities than the portfolio to which they are compared. Additionally, please remember that indices are simply a measure of performance and cannot be invested in directly.

INDEX DEFINITIONS

INDEX	DEFINITION
CONSUMER PRICE INDEX	Measure of the average change in prices for a fixed basket of goods and services regularly bought by consumers in the United States published by the U.S. Bureau of Labor Statistics.
FINANCIAL TIMES/ S&P ACTUARIES WORLD (ENERGY 50%/ INDUSTRIES 50%) COMPOSITE INDEX	The basic sector includes: construction and building materials, chemicals, mining, minerals, precious metals and minerals, forestry and paper products, and fabricated metal products. Basic The energy sector includes oil internationals, crude producers, petroleum products and refineries, non-oil energy sources, and energy equipment and services. The index is compiled by

the Financial Times, Goldman Sachs & Co., and Wood Mckenzie & Co., Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries, and is a weighted arithmetic average of the price relatives of the constituents as produced by transaction in the marketplace and adjusted for intervening capital changes. The Index is in U.S. dollars and total return.

FINANCIAL TIMES/
ACTUARIES WORLD
UTILITIES INDEX

Includes electric utilities, waterworks supply, natural gas S&P utilities, and telephone companies. The index is compiled by the Financial Times, Goldman Sachs & Co., and Wood Mckenzie & Co., Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries, and is a weighted arithmetic average of the price relatives of the constituents as produced by transaction in the marketplace and adjusted for intervening capital changes. The Index is in U.S. dollars and total return.

FIRST BOSTON
HIGH YIELD

Unmanaged, trader-priced portfolio constructed to mirror the public high yield debt market (revisions to the index are effected weekly). The index has several modules representing different sectors of the high yield market including a cash-paying module, a zero-fix module, a pay-in-kind module, and a defaulted module. The index is also divided into other categories including industry, rating, seniority, liquidity, market value, security price range, yield range, and other sector divisions.

INTERNATIONAL FINANCE
CORPORATION'S (IFC)
INVESTABLE COMPOSITE
INDEX

Emerging markets index that includes 650 stocks from 18 countries including Mexico, South Korea, Brazil, Jordan, and Turkey.

JP MORGAN GLOBAL BOND
INDEX (UNHEDGED)

A total return index that tracks the traded sovereign issues of 13 international markets. Each market is weighted according to its traded market capitalization in U.S. dollar terms, and all issues included in the index are liquid with remaining maturities of greater than 13 months.

LEHMAN BROTHERS
GOVERNMENT/CORPORATE
BOND INDEX

Includes fixed-rate debt that is rated investment grade or higher by Moody's, Standard & Poor's, or Fitch. Debt is issued by the U.S. government and its agencies, domestic corporations, and foreign dollar-denominated securities.

LEHMAN BROTHERS
INTERMEDIATE GOVERNMENT
INDEX

Includes fixed-rate debt that is rated investment grade or higher by Moody's, Standard & Poor's, or Fitch. Debt is issued by the U.S. government and its agencies, and has a maturity of one to ten years.

LIPPER INCOME AVERAGE

Consists of 21 equity funds that normally seek a high level of current income through investing in income-producing stocks, bonds, and money-market instruments.

MERRIL LYNCH TREASURY
ZERO COUPON FIVE, TEN
TWENTY YEAR INDICES

Includes five-, ten- and twenty-year zero coupon bonds, respectively, which pay no interest and are issued at a discount from redemption price.

MORGAN STANLEY CAPITAL
INTERNATIONAL EUROPE
AUSTRALIA FAR EAST
(EAFE) INDEX

Includes approximately 1000 companies representing the stock markets of 18 countries in Europe, Australia, New Zealand, and the Far East. The average company has a market capitalization of over \$3 billion. This is a total return index in U.S. dollars, with gross dividends reinvested.

MORGAN STANLEY CAPITAL
INTERNATIONAL (MSCI)
SINGAPORE/ PACIFIC
BASIN INDEX

Includes over 400 companies and the five countries of Australia, Hong Kong, Japan, New Zealand, and Malaysia. This is a total return index in U.S. dollars, with gross dividends reinvested.

MORGAN STANLEY CAPITAL
INTERNATIONAL
(MSCI) WORLD INDEX

Includes approximately 1450 securities listed on the exchanges of 20 countries including the U.S., Europe, Canada, Australia, New Zealand, and the Far East. The average company in the index has a market capitalization of about \$3.5 billion. This is a total return index in U.S. dollars, with gross dividends reinvested.

RUSSELL 1000 INDEX

An index consisting of the highest-ranking 1,000 large-capitalization U.S. stocks.

RUSSELL 2500 INDEX

An index consisting of 2,500 companies with small

market capitalizations.

SALOMON BROTHERS WORLD GOVERNMENT HEDGED INDEX Currency-hedged index uses rolling one-month forward exchange contracts as hedging instruments. Total return in U.S. dollars.

SIX-MONTH CD RATES Estimated monthly return averaging the top rates paid by major New York banks on primary new issues of negotiable CDs. Published by Micropal.

STANDARD & POOR'S (S&P 500) 500 Consists of 500 widely held common stocks within four sectors (industrials, utilities, financial, and transportation). This index, calculated by Standard & Poor's, is a total return index with dividends reinvested.

WILSHIRE MIDCAP GROWTH INDEX Overlaps both the top 750 and the next 1750 of the Wilshire 2500 universe. Includes companies that have market capitalizations ranging from \$300 million to \$1.3 billion.

Wilshire Real Estate Securities Index A market capitalization weighted index of publicly traded real estate securities such as Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs), and partnerships. The index is comprised of companies whose charter is the equity ownership and operation of commercial real estate.

FRANKLIN VALUEMARK FUNDS

<TABLE>

FINANCIAL HIGHLIGHTS

<CAPTION>

PER SHARE OPERATING PERFORMANCE
(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD) RATIOS/SUPPLEMENTAL DATA

PERIOD ENDED	NET ASSET VALUE BEGINNING OF PERIOD	NET INVESTMENT INCOME	NET REALIZED & UNREALIZED GAIN(LOSS)	TOTAL INVESTMENT OPERATIONS	DISTRI-BUTIONS FROM NET INVESTMENT INCOME	DISTRI-BUTIONS FROM NET REALIZED GAINS	DISTRI-BUTIONS TOTAL	NET ASSET VALUE, END OF PERIOD	TOTAL RETURN+	NET ASSETS, END OF PERIOD (OOO'S)	RATIO OF EXPENSES TO NET ASSETS	RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS	FOLIO TURNOVER RATE	COM-MISSION RATE****
CAPITAL GROWTH FUND														
1996	\$10.00	\$.03	\$1.33	\$1.36	\$--	\$--	\$--	\$11.36	13.60%	\$ 44,667	.77%*	.96%*	3.91%	\$.0567
1997	11.36	.06	2.02	2.08	(.02)	--	(.02)	13.42	18.31	109,355	.77	.72	19.90	.0575
GROWTH AND INCOME FUND														
1993	12.79	.09	1.22	1.31	(.11)	--	(.11)	13.99	10.32	371,484	.58	1.00	41.56	--
1994	13.99	.19	(.47)	(.28)	(.09)	(.20)	(.29)	13.42	(3.41)	517,877	.54	1.81	99.21	--
1995	13.42	.41	3.92	4.33	(.20)	(.41)	(.61)	17.14	32.83	889,487	.52	3.30	116.54	--
1996	17.14	.62	1.64	2.26	(.41)	(1.44)	(1.85)	17.55	14.19	1,077,989	.50	4.06	23.01	.0407
1997	17.55	.67	4.05	4.72	(.64)	(.62)	(1.26)	21.01	27.74	1,338,476	.49	3.53	36.71	.0413
HIGH INCOME FUND														
1993	11.77	.37	1.45	1.82	(.46)	--	(.46)	13.13	15.71	196,972	.64	8.18	21.06	--
1994	13.13	.88	(1.18)	(.30)	(.55)	(.07)	(.62)	12.21	(2.26)	255,036	.60	9.45	22.94	--
1995	12.21	1.06	1.30	2.36	(.91)	--	(.91)	13.66	19.76	360,904	.56	9.63	20.65	--
1996	13.66	1.20	.56	1.76	(1.20)	(.06)	(1.26)	14.16	13.90	446,096	.54	9.63	27.16	--
1997	14.16	1.33	.22	1.55	(1.22)	(.04)	(1.26)	14.45	11.47	496,036	.53	9.64	36.38	--
INCOME SECURITIES FUND														
1993	13.65	.33	2.18	2.51	(.31)	(.05)	(.36)	15.80	18.59	737,942	.56	6.66	10.12	--
1994	15.80	.82	(1.80)	(.98)	(.44)	(.07)	(.51)	14.31	(6.27)	1,000,002	.54	7.27	13.33	--
1995	14.31	1.16	1.96	3.12	(.89)	(.07)	(.96)	16.47	22.40	1,266,538	.51	8.05	33.14	--
1996	16.47	1.32	.44	1.76	(.87)	(.15)	(1.02)	17.21	11.28	1,350,659	.50	7.96	15.28	.0519
1997	17.21	1.40	1.38	2.78	(1.33)	(.29)	(1.62)	18.37	17.09	1,406,787	.50	7.53	14.68	.0506
MONEY MARKET FUND														
1993	1.00	.030	--	.030	(.030)	--	(.030)	1.00	2.54	131,534	.66	2.53	--	--
1994	1.00	.040	--	.040	(.040)	--	(.040)	1.00	3.82	518,618	.466	4.05	--	--
1995	1.00	.060	--	.060	(.060)	--	(.060)	1.00	5.74	429,547	.406	5.58	--	--
1996	1.00	.050	--	.050	(.050)	--	(.050)	1.00	5.16	408,930	.436	5.04	--	--
1997	1.00	.05	--	.050	(.050)	--	(.050)	1.00	5.24	367,449	.456	5.11	--	--
MUTUAL DISCOVERY SECURITIES FUND														
1996	10.00	.02	.19	.21	--	--	--	10.21	2.10	15,418	1.37*	2.11*	.14	.0300
1997	10.21	.13	1.84	1.97	(.01)	--	(.01)	12.17	19.25	198,653	.64	1.19	55.93	.0219
MUTUAL SHARES SECURITIES FUND														
1996	10.00	.02	.33	.35	--	--	--	10.35	3.50	27,677	1.00*	2.56*	1.31	.0410
1997	10.35	.13	1.71	1.84	(.01)	--	(.01)	12.18	17.73	387,787	.80	2.10	49.01	.0397
NATURAL RESOURCES FUND														
1993	9.36	.03	5.16	5.19	(.09)	--	(.09)	14.46	55.62	73,575	.68	1.58	.01	--
1994	14.46	.16	(.45)	(.29)	(.08)	--	(.08)	14.09	(2.01)	125,078	.68	1.63	7.66	--
1995	14.09	.22	.12	.34	(.20)	(.15)	(.35)	14.08	2.35	105,109	.66	1.40	15.66	--
1996	14.08	.15	.44	.59	(.20)	(.18)	(.38)	14.29	4.00	109,579	.65	1.00	21.77	.0221
1997	14.29	.15	(2.83)	(2.68)	(.20)	--	(.20)	11.41	(18.98)	74,924	.69	1.00	85.22	.0265
REAL ESTATE SECURITIES FUND														
1993	12.79	.09	2.33	2.42	(.17)	--	(.17)	15.04	19.01	92,678	.67	4.05	5.84	--

1994	15.04	.38	.06	.44	(.17)	--	(.17)	15.31	2.89	195,697	.62	4.00	11.73	--
1995	15.31	.78	1.83	2.61	(.52)	--	(.52)	17.40	17.53	213,473	.59	4.74	22.15	--
1996	17.40	.79	4.74	5.53	(.78)	--	(.78)	22.15	32.82	322,721	.57	4.80	10.32	.0519
1997	22.15	.72	3.72	4.44	(.67)	(.32)	(.99)	25.60	20.70	440,554	.54	3.59	11.62	.0550
RISING DIVIDENDS FUND														
1993	10.98	.14	(.52)	(.38)	(.03)	--	(.03)	10.57	(3.48)	299,730	.79	2.31	13.58	--
1994	10.57	.26	(.69)	(.43)	(.17)	--	(.17)	9.97	(4.08)	309,929	.80	2.71	24.07	--
1995	9.97	.27	2.66	2.93	(.24)	--	(.24)	12.66	29.74	463,253	.78	2.72	18.72	--
1996	12.66	.25	2.77	3.02	(.28)	--	(.28)	15.40	24.18	597,424	.76	1.96	27.97	.0505
1997	15.40	.22	4.77	4.99	(.26)	(.45)	(.71)	19.68	33.03	780,298	.74	1.24	37.04	.0516
SMALL CAP FUND														
19953	10.00	.03	.21	.24	--	--	--	10.24	2.30	13,301	.90*	2.70*	16.04	--
1996	10.24	.02	2.95	2.97	(.01)	--	(.01)	13.20	28.95	170,969	.77	.63	63.72	.0518
1997	13.20	.01	2.24	2.25	(.03)	(.37)	(.40)	15.05	17.42	313,462	.77	.06	64.07	.0482
TEMPLETON DEVELOPING MARKETS EQUITY FUND														
19941	10.00	.07	(.51)	(.44)	--	--	--	9.56	(4.40)	98,189	1.53*	1.85*	1.15	--
1995	9.56	.09	.18	.27	(.04)	(.01)	(.05)	9.78	2.77	158,084	1.41	2.01	19.96	--
1996	9.78	.12	1.97	2.09	(.10)	(.18)	(.28)	11.59	21.59	272,098	1.49	1.68	12.42	.0025
1997	11.59	.18	(1.10)	(.92)	(.15)	(.23)	(.38)	10.29	(8.72)	279,680	1.42	1.57	20.59	.0016
TEMPLETON GLOBAL ASSET ALLOCATION FUND														
19952	10.00	.18	.52	.70	(.18)	--	(.18)	10.52	7.01	14,729	.90*	3.84*	30.00	--
1996	10.52	.34	1.75	2.09	(.01)	(.01)	(.02)	12.59	19.84	56,274	.86	4.21	52.35	.0028
1997	12.59	.42	1.04	1.46	(.26)	(.07)	(.33)	13.72	11.71	93,402	.94	4.22	61.93	.0008
TEMPLETON GLOBAL GROWTH FUN														
19941	10.15	.07	.26	.33	--	--	--	10.48	3.25	158,856	1.14*	2.49*	7.14	--
1995	10.48	.16	1.17	1.33	(.06)	--	(.06)	11.75	12.72	338,755	.97	2.46	30.92	--
1996	11.75	.25	2.22	2.47	(.21)	(.21)	(.42)	13.80	21.28	579,877	.93	2.20	12.32	.0096
1997	13.80	.33	1.53	1.86	(.24)	(.08)	(.32)	15.34	13.507	58,445	.88	2.49	24.81	.0018
TEMPLETON GLOBAL INCOME SECURITIES FUND														
1993	12.00	.50	1.47	1.97	(.50)	(.16)	(.66)	13.31	16.68	206,594	.73	7.56	59.98	--
1994	13.31	.86	(1.52)	(.66)	(.33)	(.13)	(.46)	12.19	(4.99)	254,311	.71	7.99	79.38	--
1995	12.19	.29	1.47	1.76	(.49)	--	(.49)	13.46	14.68	243,194	.64	7.59	152.89	--
1996	13.46	1.02	.17	1.19	(1.04)	--	(1.04)	13.61	9.56	221,722	.61	7.30	140.96	--
1997	13.61	1.05	(.73)	.32	(.96)	--	(.96)	12.97	2.55	185,016	.62	7.03	181.61	--
TEMPLETON INTERNATIONAL EQUITY FUND														
1993++	9.76	.18	2.60	2.78	(.04)	--	(.04)	12.50	28.563	10,146	1.12	1.58	29.50	--
1994	12.50	.19	(.07)	.12	(.04)	(.07)	(.11)	12.51	.877	85,124	.99	2.17	12.22	--
1995	12.51	.37	.94	1.31	(.22)	(.28)	(.50)	13.32	10.598	50,117	.92	2.87	16.42	--
1996	13.32	.40	2.58	2.98	(.38)	(.47)	(.85)	15.45	22.98	1,108,099	.89	3.07	27.52	.0140
1997	15.45	.30	1.51	1.81	(.45)	(.69)	(1.14)	16.12	11.69	1,161,430	.89	3.01	26.96	.0022
TEMPLETON INTERNATIONAL SMALLER COMPANIES FUND														
19964	10.00	.10	1.15	1.2	--	--	--	11.25	12.50	16,255	1.16*	2.51*	--	.0031
1997	11.25	.23	(.39)	(.16)	(.07)	--	(.07)	11.02	(1.50)	32,201	1.06	2.74	21.38	.0004
TEMPLETON PACIFIC GROWTH FUND														
1993	9.88	.05	4.68	4.73	--	--	--	14.61	47.87	215,882	1.14	1.29	12.36	--
1994	14.61	.22	(1.50)	(1.28)	(.03)	(.06)	(.09)	13.24	(8.79)	375,832	1.07	2.04	4.29	--
1995	13.24	.33	.71	1.04	(.26)	(.11)	(.37)	13.91	7.97	331,936	1.01	2.08	36.06	--
1996	13.91	.21	1.34	1.56	(.44)	(.26)	(.70)	14.76	11.10	356,759	.99	1.51	12.85	.0092
1997	14.76	.29	(5.49)	(5.20)	(.28)	--	(.28)	9.28	(35.95)	165,404	1.03	1.97	11.87	.0070
U.S. GOVERNMENT SECURITIES FUND														
1993	13.24	.50	\$.77	1.27	(.51)	(.08)	(.59)	13.92	9.71	684,303	.54	6.06	145.11	--
1994	13.92	.96	(.59)	(.63)	(.67)	(.05)	(.72)	12.57	(4.55)	579,039	.53	6.87	18.25**	--
1995	12.57	.93	1.46	2.39	(.96)	--	(.96)	14.00	19.46	643,165	.52	6.72	18.68**	--
1996	14.00	.75	(.31)	.44	(.97)	--	(.97)	13.47	3.62	843,858	.51	6.66	12.93***	--
1997	13.47	1.00	.21	1.21	(.76)	--	(.76)	13.92	9.31	765,084	.50	6.49	16.84	--
UTILITY EQUITY FUND														
1993	15.82	.38	1.28	1.66	(.34)	--	(.34)	17.14	10.54	1,589,634	.51	4.47	4.80	--
1994	17.14	.95	(2.94)	(1.99)	(.62)	(.11)	(.73)	14.42	(11.56)	1,155,110	.52	5.58	11.74	--
1995	14.42	.84	3.54	4.38	(.90)	--	(.90)	17.90	31.35	1,423,446	.50	5.14	13.27	--
1996	17.90	.91	.29	1.20	(.92)	--	(.92)	18.18	7.0	1,202,290	.50	4.20	29.69	.0252
1997	18.18	.90	3.54	4.44	(.96)	(1.33)	(2.29)	20.33	26.76	1,129,904	.50	3.91	17.00	.0154
ZERO COUPON FUND - 2000														
1993	13.88	.66	1.55	2.21	(.62)	(.03)	(.65)	15.44	16.15	76,916	.376	5.88	7.02	--
1994	15.44	.68	1.71)	(1.03)	(.69)	(.10)	(.79)	13.62	(6.76)	94,230	.406	6.37	--	--
1995	13.62	.75	2.03	2.78	(.67)	--	(.67)	15.73	20.67	137,357	.406	6.14	1.63	--
1996	15.73	.98	(.65)	.33	(.86)	(.01)	(.87)	15.19	2.43	129,601	.406	6.14	.58	--
1997	15.19	1.15	(.12)	1.03	(1.06)	(.02)	(1.08)	15.14	7.11	111,650	.406	6.47	6.16	--
ZERO COUPON FUND - 2005														
1993	13.62	.44	2.55	2.99	(.52)	(.01)	(.53)	16.08	22.21	42,998	.376	5.67	16.59	--
1994	16.08	.71	(2.24)	(1.53)	(.60)	(.19)	(.79)	13.76	(9.60)	51,499	.406	6.53	2.00	--
1995	13.76	.78	3.53	4.31	(.69)	--	(.69)	17.38	31.76	83,222	.406	6.19	1.72	--
1996	17.38	.96	(1.13)	(.17)	(.86)	--	(.86)	16.35	(.50)	82,603	.406	6.15	2.06	--
1997	16.35	1.14	.63	1.77	(1.06)	(.01)	(1.07)	17.05	11.37	77,296	.406	6.16	4.52	--
ZERO COUPON FUND - 2010														
1993	13.35	.50	2.81	3.31	(.94)	(.04)	(.98)	15.68	25.47	29,189	.256	5.89	36.63	--
1994	15.68	.55	(2.27)	(1.72)	(.63)	(.31)	(.94)	13.02	(10.97)	45,361	.406	6.57	4.34	--
1995	13.02	.76	4.75	5.51	(.49)	--	(.49)	18.04	42.79	85,633	.406	6.41	31.45	--
1996	18.04	1.02	(1.65)	(.63)	(.88)	(.24)	(1.12)	16.29	(2.69)	78,816	.406	6.24	16.10	--
1997	16.29	1.02	1.54	2.56	(1.01)	(.01)	(1.02)	17.83	16.57	85,515	.406	6.21	12.20	--

</TABLE>

*Annualized.

**The portfolio turnover rate excludes mortgage dollar roll transactions.

***The portfolio turnover rate excludes transactions related to the liquidation of the Investment Grade Intermediate Bond Fund and the Adjustable U.S. Government Fund and mortgage dollar roll transactions.

****Relates to purchases and sales of equity securities. Prior to December 31, 1996, disclosure of average commission rate was not required.
 +Total return is not annualized.
 ++Per share amounts have been calculated using the average shares outstanding during the period. 1For the period March 15, 1994 (effective date) to December 31, 1994. 2For the period April 19, 1995 (seed date) to December 31, 1995. 3For the period November 1, 1995 (effective date) to December 31, 1995. 4For the period May 1, 1996 (effective date) to December 31, 1996. 5For the period November 8, 1996 (effective date) to December 31, 1996. 6During the periods indicated below, Franklin Advisers, Inc., the investment manager, agreed to waive in advance a portion of its management fees and made payments of other expenses incurred by the Funds in the Trust. Had such action not been taken, the ratio of expenses to average net assets would have been as follows:

MONEY MARKET FUND

1994 .54%
 1995 .53
 1996 .53
 1997 .53

ZERO COUPON FUND - 2000

1993 .67%
 1994 .66
 1995 .63
 1996 .62
 1997 .63

ZERO COUPON FUND - 2005

1993 .67%
 1994 .68
 1995 .66
 1996 .65
 1997 .65

ZERO COUPON FUND - 2010

1993 .68%
 1994 .68
 1995 .66
 1996 .65
 1997 .65

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

<TABLE>
 <CAPTION>

Capital Growth Fund	SHARES	VALUE
<S>	<C>	<C>
Common Stocks 82.1%		
Chemicals 3.8%		
Air Products and Chemicals, Inc.	20,000	\$ 1,645,000
Millipore Corp.	30,000	1,018,125
Sigma-Aldrich Corp.	35,000	1,391,250

		4,054,375

Commercial Services 1.0%		
Robert Half International, Inc.	27,000	1,080,000

Consumer Products - Durables 1.4%		
Mattel, Inc.	40,000	1,490,000

Consumer Products - Non-Durables 6.3%		
Campbell Soup Co.	22,000	1,278,750
Gillette Co.	8,000	803,500
Hershey Foods Corp.	20,000	1,238,750
Nike, Inc., Class B	30,000	1,177,500
PepsiCo, Inc.	20,000	728,750
Procter & Gamble Co.	15,000	1,197,187
The Coca-Cola Co.	7,000	466,375

		6,890,812

Consumer Services 3.2%		
Cendant Corp.	40,000	1,375,000
Disney (Walt) Co.	9,000	891,563
Mirage Resorts, Inc.	55,000	1,251,250

		3,517,813

Containers & Packaging 1.3%		
Owens-Illinois, Inc.	38,500	1,460,593

Data Services 1.1%		
aComputer Sciences Corp.	15,000	1,252,500

Electronic Technology 11.3%		
a3Com Corp.	45,000	1,572,187
aAscend Communications, Inc.	10,000	245,000
aCisco Systems, Inc.	40,500	2,257,875
Compaq Computer Corp.	25,000	1,410,938
Hewlett-Packard Co.	20,000	1,250,000
aImation Corp.	40,000	640,000
Molex, Inc.	48,437	1,556,039
aNewbridge Networks Corp.	35,000	1,220,625
aUniphase Corp.	18,000	744,750
United Technologies Corp.	20,000	1,456,250

		12,353,664

Financial Services 7.8%		
American International Group, Inc.	12,000	1,305,000
Citicorp	11,000	1,390,813
Equifax, Inc.	35,000	1,240,312
Fannie Mae	20,000	1,141,250
Providian Financial Corp.	34,000	1,536,375
Schwab (Charles) Corp.	27,000	1,132,313
Wells Fargo & Co.	2,000	678,875

		8,424,938

Health Care Services .6%		
aOxford Health Plans, Inc.	10,000	155,625
aPacifiCare Health Systems, Inc., Class B	10,000	523,750

		679,375

Health Technology 9.7%		
Abbott Laboratories	15,000	\$ 983,438
American Home Products Corp.	10,000	765,000
aAmgen, Inc.	25,000	1,353,125
Baxter International, Inc.	25,000	1,260,937
aBoston Scientific Corp.	30,000	1,376,250
Johnson & Johnson	25,000	1,646,875
Lilly (Eli) & Co.	16,000	1,114,000
Mentor Corp.	35,000	1,277,500
Merck & Co., Inc.	8,000	850,000

		10,627,125

Industrial Services .7%		
Schlumberger, Ltd.	10,000	805,000

Media & Broadcasting 1.4%		
Time Warner, Inc.	25,000	1,550,000

Oil & Gas 5.2%		
aBarrett Resources Corp.	50,000	1,512,500
Enron Corp.	40,000	1,662,500
MCN Energy Group, Inc.	30,000	1,211,250
Royal Dutch Petroleum Co., New York Shares, ADR	25,000	1,354,687

		5,740,937

Producer Manufacturing 3.4%		
Emerson Electric Co.	25,000	1,410,937
Minnesota Mining & Manufacturing Co.	15,000	1,230,937
aU.S. Filter Corp.	35,000	1,047,813

		3,689,687

Restaurants 1.1%		
McDonald's Corp.	25,000	1,193,750
aTricon Global Restaurants, Inc.	2,000	58,125

		1,251,875

Retail 1.4%		

Wal-Mart Stores, Inc.	38,000	1,498,625

Semiconductors 4.9%		
aAdaptec, Inc.	45,000	1,670,625
Intel Corp.	15,000	1,053,750
Linear Technology Corp.	16,000	922,000
aXilinx, Inc.	50,000	1,753,125

		5,399,500

Software/Technology Services 10.1%		
Adobe Systems, Inc.	20,000	825,000
Automatic Data Processing, Inc.	32,000	1,964,000
aElectronic Arts, Inc.	35,000	1,323,437
aIntuit, Inc.	30,000	1,237,500
aMicrosoft Corp.	7,000	904,750
aOracle Corp.	35,000	780,937
aParametric Technology Co.	40,000	1,895,000
aSiebel Systems, Inc.	66	2,760
aSterling Commerce, Inc.	20,000	768,750
aSynopsys, Inc.	36,500	1,304,875

		11,007,009

Transportation 2.2%		
Air Express International Corp.	45,000	1,372,500
Southwest Airlines Co.	40,500	997,313

		2,369,813

Utilities 4.2%		
aAES Corp.	34,000	\$ 1,585,250
aAirTouch Communications, Inc.	35,000	1,454,688
GTE Corp.	30,000	1,567,500

		4,607,438

Total Long Term Investments (Cost \$76,532,823)		89,751,079

		PRINCIPAL
		AMOUNT
fRepurchase Agreement 17.3%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$18,914,678) (Cost \$18,908,076)	\$18,908,076	18,908,076

BancAmerica Robertson Stephens (Maturity Value \$586,357)		
Barclays Capital Group, Inc. (Maturity Value \$1,740,150)		
BT Alex Brown, Inc. (Maturity Value \$1,626,663)		
Chase Securities, Inc. (Maturity Value \$1,740,150)		
CIBC Wood Gundy Securities Corp. (Maturity Value \$1,740,150)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$1,740,150)		
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$1,740,150)		
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$1,740,150)		
Greenwich Capital Markets, Inc. (Maturity Value \$1,040,308)		
Paribas Corp. (Maturity Value \$1,740,150)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$1,740,150)		
UBS Securities, L.L.C. (Maturity Value \$1,740,150)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$95,440,899) 99.4%		108,659,155
Other Assets, less Liabilities .6%		695,832

Net Assets 100.0%		\$109,354,987
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aNon-income producing.
fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

Growth and Income Fund	COUNTRY	SHARES	VALUE
Common Stocks 93.5%			
<S>		<C>	<C>
Automobile 2.0%			
Chrysler Corp.	United States	367,000	\$ 12,913,813
Ford Motor Co.	United States	292,500	14,241,093

			27,154,906

Chemicals, Basic 3.5%			
Dow Chemical Co.	United States	144,300	14,646,450
Imperial Chemical Industries, Plc., Sponsored ADR	United Kingdom	331,000	21,494,313
Millennium Chemicals, Inc.	United States	431,870	10,175,937

			46,316,700

Consumer Products 4.6%			
Anheuser-Busch Cos., Inc.	United States	375,000	16,500,000
Cadbury Schweppes, Plc.	United Kingdom	123,900	1,231,104
Dial Corp.	United States	236,800	4,928,400
Eastman Kodak Co.	United States	182,000	11,067,875
Fortune Brands, Inc.	United States	345,100	12,790,269
H.J. Heinz Co.	United States	288,000	14,634,000

			61,151,648

Electrical Equipment 1.5%			
AMP, Inc.	United States	300,000	12,600,000
General Electric Co.	United States	92,200	6,765,175

			19,365,175

Financial Services 10.1%			
Banc One Corp.	United States	263,100	14,289,618
BankBoston Corp.	United States	223,500	20,995,031
Beneficial Corp.	United States	217,000	18,038,125
J.P. Morgan & Co., Inc.	United States	115,900	13,082,213
Mercantile Bancorporation, Inc.	United States	248,203	15,264,485
National City Corp.	United States	304,000	19,988,000
PNC Bank Corp.	United States	345,900	19,737,919
Westpac Banking Corp., Ltd.	Australia	2,163,651	13,842,132

			135,237,523

Forest Products & Paper 4.4%			
Georgia-Pacific Corp.	United States	151,000	9,173,250
Georgia Pacific Corp. (Timber Group)	United States	201,000	4,560,187
Portucel Industrial-Empresa Produtora de Celulosa, SA, Sponsored ADR, 144A	Portugal	1,020,000	6,223,632
Potlatch Corp.	United States	318,400	13,691,200
Union Camp Corp.	United States	240,000	12,885,000
Weyerhaeuser Co.	United States	255,000	12,510,938

			59,044,207

Insurance 4.5%			
Lincoln National Corp.	United States	324,400	25,343,750
Mid Ocean, Ltd.	United States	214,100	11,614,925
Scor	France	297,000	14,202,310
St. Paul Cos., Inc.	United States	76,000	6,236,750
Zenith National Insurance Corp.	United States	121,500	3,128,625

			60,526,360

Metals & Mining 2.0%			
British Steel, Plc., Sponsored ADR	United Kingdom	490,000	10,504,375
DeBeers Consolidated Mines, Ltd., ADR	South Africa	401,800	8,211,788
Freeport-McMoRan Copper & Gold, Inc., Class A	United States	480,000	7,560,000

			26,276,163

Miscellaneous Manufacturing .8%			
Cooper Industries, Inc.	United States	167,300	\$ 8,197,700
Minnesota Mining and Manufacturing Co.	United States	35,500	2,913,219

			11,110,919

Oil/Gas Transmission 3.8%			
Consolidated Natural Gas Co.	United States	267,000	16,153,500
National Fuel Gas Co.	United States	421,800	20,536,388
Pacific Enterprises	United States	390,800	14,703,850

			51,393,738

Petroleum, Integrated 15.1%			
Amoco Corp.	United States	275,700	23,468,962
Atlantic Richfield Co.	United States	452,000	36,216,500
Chevron Corp.	United States	339,000	26,103,000
Exxon Corp.	United States	427,000	26,127,062
Mobil Corp.	United States	274,000	19,779,375
Texaco, Inc.	United States	536,400	29,166,750
Ultramar Diamond Shamrock Corp.	United States	447,800	14,273,625
YPF Sociedad Anonima, Sponsored ADR	Argentina	807,000	27,589,313

Pharmaceuticals 4.5%			
Bristol-Myers Squibb Co.	United States	185,000	17,505,625
Glaxo Wellcome, Plc., Sponsored ADR	United Kingdom	440,800	21,103,300
Pharmacia & Upjohn, Inc.	United States	590,000	21,608,750
			60,217,675
Printing, Publishing & Media .8%			
Dun & Bradstreet Corp.	United States	325,000	10,054,688
Real Estate Investment Trusts 5.2%			
Equity Residential Properties Trust	United States	485,300	24,537,980
FelCor Suite Hotels, Inc.	United States	712,000	25,276,000
Simon DeBartolo Group, Inc.	United States	615,700	20,125,693
			69,939,673
Retail 2.3%			
J.C. Penney Co., Inc.	United States	501,900	30,270,844
Telecommunications 10.4%			
Ameritech Corp.	United States	181,000	14,570,500
AT&T Corp.	United States	276,000	16,905,000
Bell Atlantic Corp.	United States	274,816	25,008,255
aFrance Telecom, SA	France	111,100	4,029,763
GTE Corp.	United States	477,500	24,949,375
Southern New England Telecommunications Corp.	United States	633,900	31,893,093
U S WEST Communications Group	United States	483,100	21,799,888
			139,155,874
Tobacco 6.4%			
Dimon, Inc.	United States	550,000	14,437,500
Imperial Tobacco Group, Plc.	United Kingdom	1,108,000	6,987,780
Imperial Tobacco Group, Plc., ADR	United Kingdom	528,300	6,663,606
Philip Morris Cos., Inc.	United States	347,800	15,759,688
RJR Nabisco Holdings Corp.	United States	498,560	18,696,000
UST, Inc.	United States	640,000	23,640,000
			86,184,574
Transportation .9%			
Illinois Central Corp.	United States	352,000	11,990,000
Utilities 10.7%			
CINergy Corp.	United States	364,000	\$ 13,968,500
Dominion Resources, Inc.	United States	519,000	22,089,938
Enova Corp.	United States	590,000	15,966,875
Entergy Corp.	United States	653,000	19,549,188
GPU, Inc.	United States	425,300	17,915,763
New Century Energies, Inc.	United States	288,000	13,806,000
OGE Energy Corp.	United States	294,000	16,041,375
PacifiCorp	United States	410,000	11,172,500
PG&E Corp.	United States	435,700	13,261,619
			143,771,758
Total Long Term Investments (Cost \$947,564,869)			1,251,887,012

PRINCIPAL
AMOUNT

fRepurchase Agreement 5.8%			
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$77,961,600) (Cost \$77,934,388)	United States	\$77,934,388	77,934,388
BancAmerica Robertson Stephens (Maturity Value \$2,388,743)			
Barclays Capital Group, Inc. (Maturity Value \$7,169,349)			
BT Alex Brown, Inc. (Maturity Value \$6,750,695)			
Chase Securities, Inc. (Maturity Value \$7,169,349)			
CIBC Wood Gundy Securities Corp. (Maturity Value \$7,169,349)			
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$7,169,349)			
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$7,169,349)			
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$7,168,569)			
Greenwich Capital Markets, Inc. (Maturity Value \$4,301,141)			
Paribas Corp. (Maturity Value \$7,168,569)			
SBC Warburg Dillon Read, Inc. (Maturity Value \$7,168,569)			
UBS Securities, L.L.C. (Maturity Value \$7,168,569)			
Collateralized by U.S. Treasury Bills & Notes			
Total Investments (Cost \$1,025,499,257) 99.3%			1,329,821,400
Other Assets, less Liabilities .7%			8,654,726
Net Assets 100.0%			\$1,338,476,126

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aNon-income producing.
fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ WARRANTS <C>	VALUE <C>
High Income Fund			
<S>			
Long-Term Investments 93.5%			
aCommon Stocks and Warrants .1%			
Empire Gas Corp., warrants	United States	6,900	\$ 41,400
Foodmaker, Inc., warrants	United States	70	2,968
Gulf States Steel, warrants	United States	5,000	25,000
International Wireless Holding Co., warrants	United States	7,800	312,000
McCaw International Holdings.....	United States	7,000	17,500
Nextel Communications, Inc.	United States	10,070	261,820
Nextel Communications, Inc., warrants.....	United States	6,500	19,500
Orion Network Systems, Inc., warrants	United States	1,500	17,016
Thermadyne Holdings Corp.	United States	395	11,653
Wireless One, Inc., warrants	United States	5,000	50

Total Common Stocks and Warrants (Cost \$357,374)			708,907

Preferred Stocks 1.6%			
Asia Pulp & Paper Co., Ltd., 12.00%, pfd., Class A	Indonesia	4,500,000	3,881,250
Fresenius Medical Care A.G., 9.00%, pfd.	United States	1,300	1,365,000
Time Warner, Inc., 10.25%, pfd., Series M, PIK	United States	2,496	2,808,418

Total Preferred Stocks (Cost \$8,322,389)			8,054,668

Total Common Stocks and Warrants, and Preferred Stocks (Cost \$8,679,763)			8,763,575

		PRINCIPAL AMOUNT*	
Bonds 91.8%			
Automotive .4%			
Aetna Industrial, Inc., senior notes, 11.875%, 10/01/06	United States	700,000	612,500
Collins & Aikman Corp., senior sub. notes, 11.50%, 4/15/06	United States	1,000,000	1,130,000

			1,742,500

Broadcasting 5.2%			
Benedek Broadcasting Corp., senior notes, 11.875%, 3/01/05	United States	2,500,000	2,812,500
Chancellor Media Corp., senior sub. notes, 144A, 8.125%, 12/15/07	United States	8,000,000	7,870,000
Granite Broadcasting Corp., senior sub. notes, 10.375%, 5/15/05	United States	6,500,000	6,841,250
Jacor Communications, Inc., senior sub. notes, 9.75%, 12/15/06	United States	1,000,000	1,068,750
SCI Television, Inc., S.F., senior notes, 11.00%, 6/30/05	United States	2,000,000	2,113,462
SFX Broadcasting, Inc., senior sub. notes, Series B, 10.75%, 5/15/06	United States	2,000,000	2,200,000
Sinclair Broadcast Group, Inc., senior sub. notes, 10.00%, 9/30/05	United States	2,500,000	2,643,750

			25,549,712

Cable Television/Systems 7.5%			
Cablevision Systems Corp., senior sub. deb., 10.50%, 5/15/16	United States	3,000,000	3,502,500
Cablevision Systems Corp., senior sub. deb., 9.875%, 4/01/23	United States	4,500,000	4,972,500
Cablevision Systems Corp., senior sub. notes, 8.125%, 8/15/09	United States	1,500,000	1,556,250
Century Communications Corp., senior sub. notes, 9.50%, 3/01/05	United States	3,000,000	3,187,500
Comcast Corp., senior sub. deb., 9.125%, 10/15/06	United States	2,000,000	2,135,000
Comcast Corp., senior sub. deb., 9.50%, 1/15/08	United States	2,000,000	2,135,000
Continental Cablevision, Inc., senior deb., 9.50%, 8/01/13	United States	1,500,000	1,789,617
Continental Cablevision, Inc., senior sub. deb., 11.00%, 6/01/07	United States	1,000,000	1,112,220
Diamond Cable Communications Co., Plc., senior disc. notes, zero coupon to 12/15/00, 11.75% thereafter, 12/15/05.....	United Kingdom	2,700,000	2,099,250
Diamond Cable Communications Co., Plc., senior disc. notes, 144A, zero coupon to 2/15/02, 10.75% thereafter, 2/15/07	United Kingdom	1,500,000	1,023,750
Le Groupe Videotron Ltee, senior notes, 10.625%, 2/15/05	Canada	2,200,000	2,442,000
Rogers Cablesystems, Inc., senior secured deb., 9.65%, 1/15/14	Canada	5,700,000 CAD	4,317,729
TeleWest Communications, Plc., senior deb., zero coupon to 10/01/00, 11.00% thereafter, 10/01/07	United Kingdom	8,000,000	6,250,000
Wireless One, Inc., units, senior disc. notes, zero coupon to 8/01/01, 13.50% thereafter, 8/01/06	United States	2,000,000	420,000

			36,943,316

Chemicals 2.6%			
Applied Extrusion Technologies, Inc., senior notes, Series B, 11.50%, 4/01/02 ...	United States	3,750,000	4,012,500
Climachem, Inc., senior sub. notes, 144A, 10.75%, 12/01/07	United States	1,200,000	1,242,000

Huntsman Corp., senior sub. notes, 144A, 9.50%, 7/01/07	United States	3,500,000	\$ 3,640,000
Uniroyal Chemical Co. Investors, disc. notes, zero coupon to 5/01/98, 12.00% thereafter, 5/01/05.....	United States	4,000,000	3,920,000

			12,814,500

Consumer Products 3.1%			
E & S Holdings Corp., senior sub. notes, Series B, 10.375%, 10/01/06	United States	3,000,000	2,760,000
Playtex Family Products Corp., senior sub. notes, 9.00%, 12/15/03	United States	300,000	306,375
Revlon Worldwide Corp., senior disc. notes, 144A, zero coupon to 3/15/00, 10.75% thereafter 3/15/01.....	United States	10,000,000	6,950,000
RJR Nabisco, Inc., notes, 9.25%, 8/15/13	United States	3,000,000	3,439,017
Sealy Mattress Corp., senior disc. notes, 144A, zero coupon to 12/15/02, 10.875% thereafter, 12/15/07	United States	1,500,000	911,250
Sealy Mattress Corp., senior sub. notes, 144A, 9.875%, 12/15/07	United States	1,000,000	1,027,500

			15,394,142

Containers & Packaging 2.0%			
Container Corp., senior notes, Series A, 11.25%, 5/01/04.....	United States	3,500,000	3,876,250
Plastic Containers, Inc., senior notes, 10.00%, 12/15/06	United States	1,000,000	1,060,000
Radnor Holdings Corp., senior notes, 10.00%, 12/01/03.....	United States	5,000,000	5,212,500

			10,148,750

Energy 3.1%			
Clark R&M, Inc., senior sub. notes, 144A, 8.875%, 11/15/07	United States	5,000,000	5,062,500
Dailey International, Inc., senior sub. notes, 144A, 9.75%, 8/15/07	United States	1,100,000	1,160,500
Dawson Production Services, Inc., senior notes, 9.375%, 2/01/07	United States	1,000,000	1,058,750
Empire Gas Corp., units, senior secured notes, 7.00% coupon to 7/15/99, 12.875% thereafter, 7/15/04	United States	5,000,000	4,487,500
Forcenergy, Inc., senior sub. notes, 9.50%, 11/01/06	United States	800,000	852,000
Mesa Operating Co., senior sub. notes, zero coupon to 7/01/01, 11.625% thereafter, 7/01/06	United States	1,800,000	1,494,000
Pogo Producing Co., senior sub. notes, Series B, 8.75%, 5/15/07	United States	1,000,000	1,030,000

			15,145,250

Food & Beverage 4.2%			
Coca Cola Bottling Group Southwest, Inc., senior sub. notes, 9.00%, 11/15/03	United States	3,000,000	3,090,000
Curtice-Burns Food, Inc., senior sub. notes, 12.25%, 2/01/05	United States	700,000	775,250
Doane Products Co., senior notes, 10.625%, 3/01/06	United States	3,000,000	3,195,000
International Home Foods, Inc., senior sub. notes, 10.375%, 11/01/06	United States	1,600,000	1,764,000
PMI Acquisition Corp., senior sub. notes, 10.25%, 9/01/03	United States	4,700,000	5,017,250
RC/Arby's Corp., senior notes, 9.75%, 8/01/00	United States	4,000,000	4,095,000
Texas Bottling Group, Inc., senior sub. notes, 9.00%, 11/15/03	United States	3,000,000	3,075,000

			21,011,500

Food Retailing 2.0%			
Fleming Cos., Inc., senior sub. notes, 144A, 10.50%, 12/01/04	United States	2,000,000	2,105,000
Fleming Cos., Inc., senior sub. notes, 144A, 10.625%, 7/31/07	United States	2,000,000	2,120,000
Ralphs Grocery Co., senior notes, 10.45%, 6/15/04	United States	3,750,000	4,218,750
Shoppers Food Warehouse Corp., senior notes, 144A, 9.75%, 6/15/04	United States	1,500,000	1,537,500

			9,981,250

Forest & Paper Products 2.9%			
Bear Island Paper, senior notes, 144A, 10.00%, 12/01/07	United States	1,800,000	1,851,750
Four M Corp., senior notes, Series B, 12.00%, 6/01/06	United States	7,700,000	8,200,500
S.D. Warren Co., senior sub. notes, Series B, 12.00%, 12/15/04	United States	2,300,000	2,564,500
Tjiwi Kimia Finance Mauritius, senior unsecured notes, 144A, 10.00%, 8/01/04.....	Mauritius	2,000,000	1,680,000

			14,296,750

Gaming & Leisure 4.5%			
Eldorado Resorts, L.L.C., senior sub. notes, 10.50%, 8/15/06	United States	1,000,000	1,100,000
Players International, Inc., senior notes, 10.875%, 4/15/05	United States	2,900,000	3,132,000
Rio Hotel & Casino, Inc., senior sub. notes, 10.625%, 7/15/05	United States	3,000,000	3,255,000

Gaming & Leisure (cont.)			
Showboat, Inc., senior sub. notes, 13.00%, 8/01/09	United States	7,500,000	\$ 9,337,500
Six Flags Theme Parks, senior sub. notes, zero coupon to 6/15/98, 12.25% thereafter, 6/15/05.....	United States	5,000,000	5,350,000

			22,174,500

Health Care Services 5.4%			
Abbey Healthcare Group, Inc., senior sub. notes, 9.50%, 11/01/02	United States	7,770,000	8,168,213
Mariner Health Group, Inc., senior sub. notes, 9.50%, 4/01/06	United States	5,500,000	5,720,000
Maxxim Medical, Inc., senior sub. notes, 10.50%, 8/01/06	United States	2,000,000	2,185,000
Tenet Healthcare Corp., senior notes, 9.625%, 9/01/02.....	United States	850,000	922,250
Tenet Healthcare Corp., senior notes, 8.625%, 12/01/03.....	United States	2,400,000	2,547,655
Tenet Healthcare Corp., senior sub. notes, 10.125%, 3/01/05.....	United States	3,400,000	3,727,250
Tenet Healthcare Corp., senior sub. notes, 8.625%, 1/15/07	United States	3,250,000	3,347,500

Industrial Products 8.2%

Allied Waste Industries, Inc., senior disc. notes, zero coupon to 6/01/02, 11.30% thereafter, 6/01/07	United States	11,500,000	8,107,500
Allied Waste Industries, Inc., senior sub. notes, 144A, 10.25%, 12/01/06	United States	2,500,000	2,756,250
American Standard Cos., Inc., senior sub. deb., zero coupon to 6/01/98, 10.50% thereafter, 6/01/05	United States	8,500,000	8,670,000
Day International Group, senior sub. notes, 11.125%, 6/01/05	United States	1,000,000	1,085,000
EASCO Corp., senior notes, Series B, 10.00%, 3/15/01	United States	6,500,000	6,662,500
Exide Electronics Group, Inc., senior sub. notes, 11.50%, 3/15/06	United States	2,000,000	2,385,000
Goss Graphic Systems, Inc., senior sub. notes, 12.00%, 10/15/06	United States	3,200,000	3,632,000
Intertek Finance, Plc., senior sub. notes, 10.25%, 11/01/06	United Kingdom	1,200,000	1,254,000
Nortek, Inc., senior sub. notes, 9.875%, 3/01/04	United States	5,500,000	5,637,500
Trench Electric & Trench, Inc., senior sub. deb., 144A, 10.25%, 12/15/07	Canada	750,000	765,000

40,954,750

Lodging 2.3%

HMH Properties Corp., notes, Series B, 8.875%, 7/15/07	United States	3,000,000	3,172,500
John Q. Hammons Hotels, L.P., first mortgage, 8.875%, 2/15/04.....	United States	1,000,000	1,025,000
John Q. Hammons Hotels, L.P., first mortgage, 9.75%, 10/01/05.....	United States	1,500,000	1,590,000
Prime Hospitality Corp., senior sub. notes, Series B, 9.75%, 4/01/07	United States	3,000,000	3,195,000
Red Roof Inns, Inc., senior notes, 9.625%, 12/15/03.....	United States	2,310,000	2,385,075

11,367,575

Media 5.7%

American Media Operation, senior sub. notes, 11.625%, 11/15/04	United States	1,700,000	1,853,000
Ascent Entertainment Group, Inc., senior disc. notes, 144A, zero coupon to 12/01/02, 11.875% thereafter, 12/15/04.....	United States	3,000,000	1,732,500
Fox Kids Worldwide, Inc., senior disc. notes, 144A, zero coupon to 11/01/02, 10.25% thereafter, 11/01/07	United States	5,750,000	3,450,000
Fox Kids Worldwide, Inc., senior notes, 144A, 9.25%, 11/01/07	United States	1,500,000	1,458,750
Hollinger Publishing, senior sub. notes, 9.25%, 3/15/07	United States	4,500,000	4,747,500
K-III Communications Corp., senior notes, 10.25%, 6/01/04	United States	2,500,000	2,687,500
News America Holdings, Inc., deb., 8.625%, 2/07/14.....	Australia	5,000,000 AUD	3,091,740
Outdoor Systems, Inc., senior sub. notes, 8.875%, 6/15/07	United States	4,250,000	4,441,250
Time Warner, Inc., deb., 9.125%, 1/15/13	United States	1,500,000	1,795,269
Turner Broadcasting Systems, Inc., senior deb., 8.40%, 2/01/24	United States	3,000,000	3,189,312

28,446,821

Metals & Mining 3.1%

AK Steel Holding Corp., senior notes, 9.125%, 12/15/06	United States	4,000,000	4,120,000
Algoma Steel, Inc., first mortgage, 12.375%, 7/15/05	Canada	4,000,000	4,640,000
LTV Corp., notes, 144A, 8.20%, 9/15/07	United States	4,500,000	4,342,500
Neenah Corp., senior sub. notes, Series B, 11.125%, 5/01/07	United States	1,000,000	1,097,500
UCAR Global Enterprises, senior sub. notes, Series B, 12.00%, 1/15/05	United States	1,110,000	1,251,523

15,451,523

Restaurants 1.6%

Friendly Ice Cream Corp., senior notes, 10.50%, 12/01/07	United States	8,000,000	8,140,000
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Retail .8%

Hollywood Entertainment Corp., senior sub. notes, Series B, 10.625%, 8/15/04.....	United States	4,000,000	\$ 3,940,000
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Technology & Information Systems 1.8%

Amphenol Corp., senior sub. notes, 9.875%, 5/15/07	United States	1,000,000	1,065,000
Borg-Warner Security Corp., senior sub. notes, 9.625%, 3/15/07	United States	4,000,000	4,180,000
Celestica International, Inc., senior sub. notes, 10.50%, 12/31/06	United States	1,150,000	1,213,250
Decisionone Corp., senior sub. notes, 9.75%, 8/01/07	United States	1,000,000	1,025,000
Decisionone Holdings, units, zero coupon to 8/01/03, 11.50% thereafter, 8/01/08.....	United States	2,500,000	1,600,000

9,083,250

Telecommunications 5.4%

Hermes Europe Railtel BV, senior notes, 144A, 11.50%, 8/15/07	Netherlands	2,000,000	2,200,000
Intelcom Group, Inc., senior disc. notes, zero coupon to 5/01/01, 12.50% thereafter, 5/01/06	United States	3,250,000	2,449,688
Intermedia Communications, Inc., senior disc. notes, zero coupon to 7/01/02, 11.25% thereafter, 7/15/07	United States	5,000,000	3,587,500
Netia Holdings, BV, notes, 144A, 10.25%, 11/01/07	Poland	1,300,000	1,248,000
Netia Holdings, BV, notes, 144A, zero coupon to 11/01/01, 11.25% thereafter, 11/01/07	Poland	2,000,000	1,140,000
NEXTLINK Communications, Inc., senior notes, 9.625%, 10/01/07	United States	1,400,000	1,456,000
Orion Network Systems, Inc., units, senior disc. notes, zero coupon to 1/15/02, 12.50% thereafter, 1/15/07	United States	1,500,000	1,121,250
Poland Telecom Finance, units, 144A, 4.00%, 12/01/07.....	Poland	8,000,000	8,260,000
Teleport Communications Group, Inc., senior disc. notes, zero coupon to 7/01/01, 11.125% thereafter,			

7/01/07	United States	6,500,000	5,313,750

			26,776,188

Textiles & Apparel 2.4%			
Clark-Schwebel, Inc., senior notes, Series B, 10.50%, 4/15/06	United States	5,500,000	6,022,500
Pillowtex Corp., senior sub. notes, 144A, 9.00%, 12/15/07	United States	2,900,000	2,987,000
Polysindo International Finance, notes, 9.375%, 7/30/07	Indonesia	4,250,000	3,070,625

			12,080,125

Transportation 4.1%			
Eletson Holdings, Inc., first mortgage notes, 9.25%, 11/15/03	Greece	1,600,000	1,644,000
GS Superhighway Holdings, Ltd., senior notes, 144A, 10.25%, 8/15/07.....	Hong Kong	6,000,000	5,280,000
Gearbulk Holding, Ltd., senior notes, 11.25%, 12/01/04	Bermuda	4,500,000	4,961,250
L-3 Communications Corp., senior sub. notes, 10.375%, 5/01/07	United States	3,500,000	3,815,000
MRS Logistica, SA, notes, 144A, 10.625%, 8/15/05.....	Brazil	5,000,000	4,525,000

			20,225,250

Utilities 1.3%			
AES Corp., senior sub. notes, 144A, 8.50%, 11/01/07	United States	1,000,000	1,005,000
El Paso Electric Co., first mortgage, 8.90%, 2/01/06	United States	2,500,000	2,765,625
Midland Funding Corp. I, deb., Series C-94, 10.33%, 7/23/02.....	United States	2,366,375	2,556,904
System Energy Resource, S.F., first mortgage, 11.375%, 9/01/16	United States	1,000	1,081

			6,328,610

Wireless Communication 12.2%			
Arch Communications Group, Inc., senior disc. notes, zero coupon to 3/15/01, 10.875% thereafter, 3/15/08.....	United States	6,000,000	3,660,000
Comcast Cellular, senior notes, Series B, 9.50%, 5/01/07	United States	3,000,000	3,142,500
Dial Call Communications, units, senior disc. notes, zero coupon to 4/15/99, 12.25% thereafter, 4/15/04	United States	4,000,000	3,830,000
International Wireless Communications, Inc., senior disc. notes, zero coupon to 8/15/01, 14.00% thereafter 8/15/01.....	United States	7,800,000	3,900,000
McCaw International, Ltd., units, senior disc. notes, zero coupon to 4/15/02, 13.50%.....	United States	7,000,000	4,165,000
thereafter, 4/15/07.....			
Millicom International Cellular, SA, senior disc. notes, 13.50%, 6/01/06	Luxembourg	9,300,000	6,812,250
Nextel Communications, Inc., senior disc. notes, 144A, zero coupon to 9/15/02, 10.65%.....	United States	7,000,000	4,445,000
thereafter, 9/15/07			
Nextel Communications, Inc., senior disc. notes, 144A, zero coupon to 10/31/02, 9.75%.....	United States	3,000,000	1,845,000
thereafter, 10/31/07			
Paging Network, Inc., senior sub. notes, 10.125%, 8/01/07	United States	4,700,000	4,911,500
Paging Network, Inc., senior sub. notes, 10.00%, 10/15/08.....	United States	4,500,000	4,685,625
Rogers Cantel Mobile Communications, Inc., deb., 9.75%, 6/01/16	Canada	3,000,000	3,217,500
Wireless Communication (cont.)			
Sprint Spectrum, L.P., senior disc. notes, zero coupon to 8/15/01, 12.50% thereafter, 8/15/06	United States	10,000,000	\$ 7,825,000
Sygnnet Wireless, Inc., senior notes, 11.50%, 10/01/06	United States	7,500,000	8,081,250

			60,520,625

Total Bonds (Cost \$434,246,371)			455,134,755

Total Long Term Investments (Cost \$442,926,134)			463,898,330

fRepurchase Agreement 4.9%			
Joint Repurchase Agreement, 6.285%, 1/02/98 (Maturity Value \$24,275,586).....	United States	24,267,113	24,267,113

(Cost \$24,267,113)			
BancAmerica Robertson Stephens (Maturity Value \$743,749)			
Barclays Capital Group, Inc. (Maturity Value \$2,232,284)			
BT Alex Brown, Inc., (Maturity Value \$2,101,910)			
Chase Securities, Inc., (Maturity Value \$2,232,284)			
CIBC Wood Gundy Securities Corp., (Maturity Value \$2,232,284)			
Deutsche Morgan Grenfell/C.J. Lawrence, Inc., (Maturity Value \$2,232,284)			
Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$2,232,284)			
Dresdne Kleinwort Benson, North America, L.L.C., (Maturity Value \$2,232,284)			
Greenwich Capital Markets, Inc., (Maturity Value \$1,339,371)			
Paribas Corp., (Maturity Value \$2,232,284)			
SBC Warburg, Inc. (Maturity Value \$2,232,284)			
SBC Warburg Dillon Read, Inc. (Maturity Value \$2,232,284)			
Collateralized by U.S. Treasury Bills & Notes			
Total Investments (Cost \$467,193,247) 98.4%			488,165,443
Other Assets, less Liabilities 1.6%			7,870,389

Net Assets 100.0%			\$496,035,832
			=====

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.
 aNon-income producing.
 fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
 Statement of Investments, December 31, 1997

Income Securities Fund	SHARES/ WARRANTS	VALUE
<S>	<C>	<C>
Common Stocks and Warrants 36.3%		
Apparel & Textiles .3%		
a,cBibb Co.....	419,424	\$ 3,512,676

Automotive .2%		
General Motors Corp.	40,000	2,425,000

Computer & Technology .2%		
a Anacomp, Inc.....	190,223	2,972,234

Consumer Products 2.1%		
Phillip Morris Cos., Inc.	600,000	27,187,500
RJR Nabisco Holdings Corp.	60,000	2,250,000

		29,437,500

Energy 3.3%		
Athabasca Oil Sands Trust (Canada)	576,500	9,863,493
Atlantic Richfield Co.	60,000	4,807,500
Canadian Oil Sands Trust - Units, 144A (Canada)	500,000	9,446,835
Energy Group, Plc., Sponsored ADR	47,500	2,119,688
Pioneer Natural Resources Co.	302,226	8,745,665
aSanta Fe Energy Resources, Inc.	279,642	3,145,973
Snyder Oil Corp.	61,087	1,114,838
Texaco Inc.	60,000	3,262,500
Ultramar Diamond Shamrock Corp.	125,000	3,984,375

		46,490,867

Metals 1.0%		
Anglo American Platinum Corp., Ltd., ADR	223,161	2,980,672
Driefontein Consolidated, Ltd., Sponsored ADR	185,200	1,226,950
Free State Consolidated Gold Mines, Ltd., ADR	500,000	2,218,750
Freeport-McMoRan Copper & Gold, Inc., Class A	110,000	1,684,375
Impala Platinum Holdings, Ltd., ADR	216,500	2,068,679
St. Helena Gold Mines, Ltd., ADR	19,000	47,500
Vaal Reefs Exploration & Mining Co., Ltd., ADR	400,000	1,537,520
Western Deep Levels, Ltd., ADR	150,000	2,793,750

		14,558,196

Real Estate Investment Trusts 2.1%		
Equity Residential Properties Trust	150,000	7,584,375
FelCor Suite Hotels, Inc.	275,000	9,762,500
Gables Residential Trust	150,000	4,143,750
Meditrust Cos.	120,160	4,400,860
Simon DeBartolo Group, Inc.	102,900	3,363,544

		29,255,029

Telecommunications 1.2%		
U S WEST Communications Group	360,000	16,245,000

Utilities 25.9%		
American Electric Power Co.	390,000	20,133,750
Central & South West Corp.	670,000	18,131,875
CINergy Corp.	511,000	19,609,625
Delmarva Power & Light Co.	500,000	11,531,250
Dominion Resources, Inc.	385,000	16,386,563
Edison International.....	610,000	16,584,375
Enova Corp.	525,000	14,207,813
Energy Corp.	570,000	17,064,375
FirstEnergy Corp.	385,000	11,165,000
Florida Progress Corp.	422,300	16,575,275
FPL Group, Inc.....	240,000	14,205,000
GPU, Inc.....	320,000	13,480,000
Hawaiian Electric Industries, Inc.	142,000	5,804,250

Utilities (cont.)		
Houston Industries, Inc.	315,000	\$ 8,406,563
Long Island Lighting Co.	400,000	12,050,000
MidAmerican Energy Holdings Co.	291,700	6,417,400
Nevada Power Co.	175,000	4,648,438

New Century Energies, Inc.	380,000	18,216,250
New England Electric System	330,000	14,107,500
New York State Electric & Gas Corp.	200,000	7,100,000
Northern States Power Co.	105,000	6,116,250
PacifiCorp	120,000	3,270,000
PECO Energy Co.....	400,000	9,700,000
PG&E Corp.	610,000	18,566,875
Potomac Electric Power Co.	300,000	7,743,750
Public Service Enterprise Group, Inc.	395,000	12,516,563
SCANA Corp.	150,000	4,490,625
Southern Co.	480,000	12,420,000
Texas Utilities Co.	370,000	15,378,125
Western Resources, Inc.	210,000	9,030,000

		365,057,490

Miscellaneous Securities.....		316,981

Total Common Stocks and Warrants (Cost \$401,963,996)		510,270,973

Preferred Stocks .6%		
Consumer Products .1%		
Pantry Pride, Inc., \$14.875 pfd., Series B	11,000	1,104,125

Media & Broadcasting .2%		
Time Warner, Inc., 10.25% pfd., Series M	2,852	3,208,796

Paper & Forest Products .3%		
Asia Pulp & Paper Co., Ltd., 12.00% pfd., Class A	5,000,000	4,312,500

Total Preferred Stocks (Cost \$9,037,531)		8,625,421

Convertible Preferred Stocks 8.6%		
Cable Systems .8%		
Cablevision Systems Corp., 8.50% cvt. pfd., Series I	265,000	10,202,500

Energy 3.0%		
Devon Financing Trust, \$3.25 cvt. pfd., 144A	60,000	4,410,000
Enron Corp., 6.25% cvt. pfd.	330,000	6,806,250
EVI, Inc., 5.00% cvt. pfd., 144A	80,000	3,640,000
Lomak Petroleum, Inc., 5.75% cvt. pfd., 144A	65,000	3,103,750
McDermott International, Inc., \$2.875 cvt. pfd., Series C, 144A	235,000	12,807,500
Nuevo Energy Co., 5.75% cvt. pfd., Series A	116,000	5,684,000
Occidental Petroleum Corp., \$3.875 cvt. pfd., 144A	75,000	4,828,125
Patina Oil & Gas Corp., 7.125% cvt. pfd.	39,525	1,146,225

		42,425,850

Lodging .4%		
Host Marriott Financial Trust, 6.75% cvt. pfd., 144A	100,000	6,062,500

Metals 1.5%		
Amax Gold, Inc., \$3.75 cvt. pfd., Series B	150,000	5,400,000
Armco, Inc., \$3.625 cum. cvt. pfd., Series A	65,000	3,038,750
Battle Mountain Gold Co., \$3.25 cvt. pfd.	66,300	2,983,500
Coeur D' Alene Mines Corp., 7.00% cvt. pfd.	135,000	1,636,875
Cyprus Amx Minerals Co., \$4.00 cvt. pfd., Series A	55,000	2,612,500
Freeport-McMoRan Copper & Gold, Inc., \$1.25 cum. cvt. pfd.	108,800	2,611,200
Hecla Mining Co., \$3.50 cvt. pfd., Series B	70,000	3,272,500

		21,555,325

Real Estate Investment Trusts 1.5%		
Security Capital Industrial Trust, 7.00% cvt. pfd.	135,000	\$ 4,303,125
Security Capital Pacific Trust, \$1.75 cvt. pfd., Series A	400,000	13,100,000
Vornado Realty Trust, 6.50% cvt. pfd., Series A	60,000	3,960,000

		21,363,125

Telecommunications .7%		
Nortel Inversora, SA, 10.00% cvt. pfd. (Argentina)	150,000	9,515,625

Utility .7%		
c CMS Energy Corp., 7.75% quarterly cvt. pfd.	160,000	10,367,730

Total Convertible Preferred Stocks (Cost \$109,036,746)		121,492,655

Partnership Units .1%		
BP Prudhoe Bay Royalty Trust (Cost \$1,340,750)	50,000	803,125

	PRINCIPAL AMOUNT	
Corporate Bonds 22.5%		
Apparel & Textiles 1.8%		
Consoltex Group, Inc., senior sub. notes, Series B, 11.00%, 10/01/03	\$10,000,000	10,600,000
Hartmarx Corp., senior sub. notes, 10.875%, 1/15/02	8,300,000	8,590,500
Polysindo International Finance Corp., secured notes, 11.375%, 6/15/06	1,000,000	822,500
The William Carter Co., senior sub. notes, Series A, 10.375%, 12/01/06	500,000	527,500
WestPoint Stevens, Inc., senior sub. deb., 9.375%, 12/15/05	5,000,000	5,250,000

		25,790,500

Automotive .5%		
Collins & Aikman Corp., senior sub. notes, 11.50%, 4/15/06	4,000,000	4,520,000
Exide Corp., senior notes, 10.75%, 12/15/02	400,000	423,480
a,bHarvard Industries, Inc., senior notes, 11.125%, 8/01/05	5,000,000	1,650,000

		6,593,480

Building Products .7%		
Inter-City Products Corp., senior notes, 9.75%, 3/01/00	9,250,000	9,481,250

Cable Systems 1.6%		
Cablevision Systems Corp., senior sub. deb., 9.875%, 4/01/23	4,000,000	4,420,000
Continental Cablevision, Inc., senior deb., 9.50%, 8/01/13	8,000,000	9,544,624
Helicon Group L.P. Corp., S.F., senior secured notes, Series B, 11.00%, 11/01/03	7,300,000	7,884,000

		21,848,624

Chemicals 1.0%		
Applied Extrusion Technologies, Inc., senior notes, Series B, 11.50%, 4/01/02	8,000,000	8,560,000
Uniroyal Chemical Co. Investors, senior notes, 10.50%, 5/01/02	725,000	793,875
Uniroyal Chemical Co. Investors, senior sub. notes, 11.00%, 5/01/03	4,150,000	4,440,500

		13,794,375

Computer & Technology .6%		
Anacomp, Inc., senior sub. notes, Series B, 10.875%, 4/01/04	6,000,000	6,270,000
Maxtor Corp., S.F., sub. deb., 5.75%, 3/01/12	1,500,000	1,057,500

		7,327,500

Consumer Products 1.5%		
E&S Holdings Corp., senior sub. notes, Series B, 10.375%, 10/01/06	2,750,000	2,530,000
Playtex Family Products Corp., senior sub. notes, 9.00%, 12/15/03.....	8,000,000	8,170,000
Revlon Consumer Product Corp., senior sub. notes, Series B, 10.50%, 2/15/03	5,000,000	5,275,000
RJR Nabisco, Inc., notes, 9.25%, 8/15/13	5,000,000	5,731,695

		21,706,695

Containers & Packaging .5%		
Calmar, Inc., senior sub. notes, Series B, 11.50%, 8/15/05	2,450,000	2,609,250
Packaging Resources, Inc., senior notes, 11.625%, 5/01/03	2,000,000	2,090,000
Containers & Packaging (cont.)		
Printpack, Inc., senior sub. notes, Series B, 10.625%, 8/15/06	\$ 1,000,000	\$ 1,065,000
U.S. Can Corp., senior sub. notes, 10.125%, 10/15/06	300,000	319,500

		6,083,750

Energy 1.0%		
Bellwether Exploration Co., senior sub. notes, 10.875%, 4/01/07	1,000,000	1,097,500
Gerrity Oil & Gas Corp., senior sub. notes, 11.75%, 7/15/04	9,835,000	10,670,975
Mesa Operating Co., senior sub. notes, 10.625%, 7/01/06	1,000,000	1,175,000
Plains Resources, Inc., senior sub. notes, Series B, 10.25%, 3/15/06	1,000,000	1,082,500

		14,025,975

Entertainment .1%		
AMF Bowling Worldwide, Inc., senior sub. notes, Series B, 10.875%, 3/15/06	650,000	715,000

Financial Services		
First Nationwide Escrow, senior sub. notes, 10.625%, 10/01/03	500,000	562,500

Food & Beverages 2.3%		
Curtice-Burns Food, Inc., senior sub. notes, 12.25%, 2/01/05	5,000,000	5,537,500
Del Monte Corp., senior sub. notes, Series B, 12.25%, 4/15/07	4,000,000	4,530,000
Doane Products Co., senior notes, 10.625%, 3/01/06	3,000,000	3,195,000
International Home Foods, Inc., senior sub. notes, 10.375%, 11/01/06	4,100,000	4,520,250
PMI Acquisition Corp., senior sub. notes, 10.25%, 9/01/03	6,350,000	6,778,625
Specialty Foods Corp., senior sub. notes, Series B, 11.25%, 8/15/03	4,000,000	3,760,000
Specialty Foods Corp., senior unsecured notes, Series B, 10.25%, 8/15/01	4,000,000	3,980,000

		32,301,375

Food Chains 2.0%		
Americold Corp., senior sub. notes, 12.875%, 5/01/08	1,000,000	1,275,000

Americold Corp., S.F., first mortgage, Series B, 11.50%, 3/01/05	9,000,000	9,652,500
Bruno's, Inc., senior sub. notes, 10.50%, 8/01/05	7,000,000	2,485,000
Grand Union Co., senior notes, 12.00%, 9/01/04	7,000,000	3,780,000
Ralphs Grocery Co., senior sub. notes, 11.00%, 6/15/05	10,000,000	11,425,000

		28,617,500

Gaming & Leisure 1.7%		
Aztar Corp., senior sub. notes, 11.00%, 10/01/02	9,000,000	9,337,500
Eldorado Resorts, L.L.C., senior sub. notes, 10.50%, 8/15/06	500,000	550,000
Harveys Casinos Resorts, senior sub. notes, 10.625%, 6/01/06	2,200,000	2,398,000
Rio Hotel & Casino, Inc., senior sub. notes, 10.625%, 7/15/05	8,000,000	8,680,000
Venetian Casino Resort, L.L.C., mortgage notes, 144A, 12.25%, 11/15/04	3,000,000	3,011,250

		23,976,750

Health Care Services .2%		
Dade International, Inc., senior sub. notes, Series B, 11.125%, 5/01/06	3,000,000	3,315,000

Industrial Products 1.3%		
Nortek, Inc., senior sub. notes, 9.875%, 3/01/04	2,000,000	2,050,000
RBX Corp., senior sub. notes, Series B, 11.25%, 10/15/05	10,000,000	8,600,000
RHI Holdings, Inc., S.F., senior sub. deb., 11.875%, 3/01/99	3,677,000	3,667,808
Thermadyne Holdings Corp., notes, 10.75%, 11/01/03	2,696,000	2,871,240
Thermadyne Holdings Corp., senior notes, 10.25%, 5/01/02	246,000	254,610
Trench Electric & Trench Inc., senior sub. deb., 144A, 10.25%, 12/15/07	1,350,000	1,377,000

		18,820,658

Media & Broadcasting .2%		
Benedek Broadcasting Corp., senior notes, 11.875%, 3/01/05	2,000,000	2,250,000

Metals 1.0%		
Jorgensen, Earle M. Co., senior notes, 10.75%, 3/01/00	7,000,000	7,157,500
Republic Engineered Steel, first mortgage, 9.875%, 12/15/01	6,000,000	5,790,000
UCAR Global Enterprises, senior sub. notes, Series B, 12.00%, 1/15/05	815,000	918,913

		13,866,413

Paper & Forest Products .9%		
Four M Corp., senior notes, Series B, 12.00%, 6/01/06	\$ 2,000,000	\$ 2,130,000
Riverwood International, senior sub. notes, 10.875%, 4/01/08	6,000,000	5,805,000
Tjiwi Kimia Finance Mauritius, senior unsecured notes, 144A, 10.00%, 8/01/04, (Mauritius)	6,000,000	5,040,000

		12,975,000

Pharmaceuticals .2%		
ICN Pharmaceuticals, Inc., senior notes, Series B, 9.25%, 8/15/05	3,000,000	3,195,000

Telecommunications .6%		
CommNet Cellular, Inc., sub. notes, 11.25%, 7/01/05	5,000,000	5,750,000
Paging Network, Inc., senior sub. notes, 10.125%, 8/01/07	3,000,000	3,135,000

		8,885,000

Utilities 2.8%		
ESCOM, E168, utility deb., 11.00%, 6/01/08, (South Africa)	195,782,500	33,902,376
Midland Funding Corp. I, deb., S.F., Series C-94, 10.33%, 7/23/02	3,380,535	3,652,720
Texas New Mexico Power, secured deb., 10.75%, 9/15/03	2,000,000	2,185,812

		39,740,908

		315,873,253

Total Corporate Bonds (Cost \$312,055,023)		

Convertible Corporate Bonds 5.0%		
Automotive .2%		
Exide Corp., cvt. senior sub. notes, 144A, 2.90%, 12/15/05	4,000,000	2,680,000

Biotechnology .1%		
Centocor, Inc., Eurobonds, cvt. sub. deb., 6.75%, 10/16/01	2,000,000	1,960,000

Computer & Technology .6%		
Acclaim Entertainment, Inc., cvt. sub. notes, 10.00%, 3/01/02	11,000,000	9,075,000

Electrical Equipment .7%		
Trans-Lux Corp., cvt. sub. notes, 7.50%, 12/01/06	8,000,000	9,800,000

Energy 1.0%		
Oryx Energy Co., S.F., cvt. sub. deb., 7.50%, 5/15/14	9,000,000	9,225,000
Swift Energy Co., cvt. sub. notes, 6.25%, 11/15/06	5,000,000	4,956,250

		14,181,250

Health Care Services .7%		

Continuicare Corp., cvt. sub notes, 144A, 8.00%, 10/31/02	9,500,000	8,787,500
Medical Care International, Inc., S.F., cvt. sub. deb., 144A, 6.75%, 10/01/06	1,000,000	930,000

		9,717,500

Metals 1.0%		
Ashanti Capital, Ltd., cvt. notes, 5.50%, 3/15/03	5,000,000	3,737,500
Coeur D'Alene Mines Corp., Eurobonds, cvt. sub. deb., 6.00%, 6/10/02	100,000	73,000
Coeur D'Alene Mines Corp., cvt. sub. deb., 6.375%, 1/31/04	6,000,000	4,702,500
FMC Corp., Eurobonds, cvt. senior sub. deb., 6.75%, 1/16/05	1,800,000	1,683,000
Homestake Mining Co., cvt. sub. deb., 144A, 5.50%, 6/23/00	4,000,000	3,750,000

		13,946,000

Pollution Control .2%		
Air & Water Technology Corp., S.F., cvt. sub. deb., 8.00%, 5/15/15	3,610,000	2,973,738

Real Estate Investment Trust .4%		
Macerich Co., cvt. sub. deb., 144A, 7.25%, 12/15/02	5,500,000	5,417,500

Retail .1%		
Drug Emporium, Inc., S.F., cvt. sub. deb., 7.75%, 10/01/14	1,180,000	1,036,925

Total Convertible Corporate Bonds (Cost \$72,557,735)		70,787,913

Zero Coupon/Step-up Bonds 2.8%		
AMF Bowling Worldwide, Inc., senior sub. disc. notes, Series B, zero coupon to 3/15/01, 12.25% thereafter, 3/15/06.....	2,438,000	1,929,068
APP Finance (VI) Mauritius Ltd., cvt., 144A, 0.00%, 11/18/12	11,500,000	2,357,500
Food 4 Less, Inc., senior disc. deb., zero coupon to 6/15/00, 13.625% thereafter, 7/15/05.....	10,000,000	8,750,000
Marcus Cable Holding Co., senior disc. notes, zero coupon to 6/15/00, 14.25% thereafter, 12/15/05	\$14,000,000	\$ 12,180,000
Mesa Operating Co., senior sub. notes, zero coupon to 7/01/01, 11.625% thereafter, 7/01/06	1,300,000	1,079,000
Revlon Worldwide Corp., senior secured disc. notes, Series B, 0.00%, 3/15/98	8,000,000	7,918,200
Revlon Worldwide Corp., senior disc. notes, zero coupon to 3/15/00, 10.75% thereater, 3/15/01	6,000,000	4,170,000
Uniroyal Chemical Co. Investors, disc. notes, zero coupon to 5/01/98, 12.00% thereafter, 5/01/05	1,500,000	1,470,000

Total Zero Coupon/Step-up Bonds (Cost \$35,806,963)		39,853,768

U.S. Government Securities 9.1%		
U.S. Treasury Bonds, 6.00% - 7.125%, 2/15/23 - 2/15/26	111,000,000	116,480,997
U.S. Treasury Notes, 6.375%, 8/15/02	11,000,000	11,288,761

Total U.S. Government Securities (Cost \$117,769,483)		127,769,758

Foreign Government & Agency Securities 10.3%		
Republic of Argentina, Series L, 5.50%, 3/31/23	110,000,000	80,575,000
Republic of Brazil, 6.8125%, 1/01/01	7,850,000	7,477,125
6.875%, 4/15/06	15,680,000	13,504,400
5.25%, 4/15/24	39,000,000	28,275,000
Republic of South Africa, 12.00%, 2/28/05 (South Africa)	75,000,000	14,240,214

Total Foreign Government & Agency Securities (Cost \$114,051,959)		144,071,739

Total Long Term Investments (Cost \$1,173,620,186)		1,339,548,605

f Repurchase Agreement 3.6%		
Joint Repurchase Agreement, 6.285%, 1/02/98 (Maturity Value \$51,217,379) (Cost \$51,199,502)	51,199,502	51,199,502

BancAmerica Robertson Stephens (Maturity Value \$1,569,188)		
Barclays Capital Group, Inc., (Maturity Value \$4,709,741)		
BT Alex Brown, Inc., (Maturity Value \$4,434,676)		
Chase Securities, Inc., (Maturity Value \$4,709,741)		
CIBC Wood Gundy Securities Corp., (Maturity Value \$4,709,741)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc., (Maturity Value \$4,709,741)		
Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$4,709,741)		
Dresdner Kleinwort Benson, North America, L.L.C., (Maturity Value \$4,709,741)		
Greenwich Capital Markets, Inc., (Maturity Value \$2,825,846)		
Paribas Corp., (Maturity Value \$4,709,741)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$4,709,741)		
UBS Securities, L.L.C., (Maturity Value \$4,709,741)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$1,224,819,688) 98.9%		1,390,748,107
Other Assets, less Liabilities 1.1%		16,038,512

Net Assets 100.0%		\$1,406,786,619
		=====

aNon-income producing.

bSee Note 7 regarding defaulted securities.
 cSee Note 8 regarding restricted securities.
 fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
 Statement of Investments, December 31, 1997

	PRINCIPAL AMOUNT	VALUE
Money Market Fund		
<S>	<C>	<C>
Certificates of Deposit 10.9%		
Bank of Montreal, Chicago Branch, 5.72%, 5/13/98	\$ 5,000,000	\$ 5,000,178
Barclays Bank, Plc., New York Branch, 5.79%, 3/04/98	5,000,000	5,000,085
Bayerische Vereinsbank, New York Branch, 5.78%, 5/14/98	5,000,000	5,000,000
Morgan Guaranty and Trust, New York Branch, 5.94%, 3/20/98	5,000,000	5,000,000
Societe Generale, New York Branch, 5.77%, 3/17/98 - 3/19/98	15,000,000	15,000,000
Swiss Bank Corp., New York Branch, 5.75%, 5/08/98	5,000,000	5,000,000

Total Certificates of Deposit (Cost \$40,000,263)		40,000,263

dCommercial Paper 76.0%		
Abbey National North America, 5.55% - 5.60%, 1/23/98 - 4/27/98	15,000,000	14,876,361
ABN-Amro North America Finance, Inc., 5.54%, 4/30/98	5,000,000	4,908,436
Ameritech Corp., 5.52%, 1/22/98	10,000,000	9,967,800
Associates Corp. of North America, 5.55% - 5.60%, 1/14/98 - 1/15/98	15,000,000	14,968,306
AT&T Corp., 5.50 - 5.58%, 1/05/98 - 5/18/98	15,000,000	14,887,714
Canadian Wheat Board, 5.51% - 5.55%, 2/13/98 - 5/19/98	15,000,000	14,827,811
CIESCO, L.P., 5.60% - 5.75%, 1/13/98 - 1/29/98	10,000,000	9,968,306
Coca-Cola Co., 5.49%, 1/21/98	10,000,000	9,969,500
Commonwealth Bank of Australia, 5.54%, 5/07/98	5,000,000	4,903,050
Disney (Walt) Co., 5.60%, 4/21/98 - 4/23/98	15,000,000	14,741,000
General Electric Capital Corp., 5.55% - 5.60%, 1/15/98 - 1/22/98	15,000,000	14,962,084
Generale Bank, Inc., 5.51% - 5.60%, 1/06/98 - 2/19/98	15,000,000	14,954,723
Goldman Sachs Group, L.P., 5.65%, 2/09/98 - 2/20/98	10,000,000	9,930,160
Kingdom of Sweden, 5.54%, 2/24/98	11,400,000	11,305,266
Merrill Lynch & Co., Inc., 5.71%, 2/23/98 - 2/25/98	10,000,000	9,914,350
Metlife Funding, Inc., 5.58% - 5.66%, 1/07/98 - 2/17/98	15,000,000	14,926,172
Morgan Stanley Group, Inc., 5.51% - 5.59%, 1/06/98 - 1/09/98	15,000,000	14,984,548
National Australian Funding, 5.595%, 1/20/98	10,000,000	9,970,471
National Rural Utilities Cooperative Finance Corp., 5.66%, 3/02/98	5,000,000	4,952,833
Province of British Columbia, 5.63%, 2/10/98	10,000,000	9,937,444
Schering Corp., 5.65%, 2/24/98	5,000,000	4,957,625
Siemens Capital Corp., 5.57% - 5.59%, 6/15/98 - 6/25/98	15,000,000	14,601,905
Toyota Motor Credit Corp., 5.64%, 1/28/98 - 1/30/98	15,000,000	14,934,200
Wool International, 5.49% - 5.69%, 2/12/98 - 2/17/98	15,000,000	14,897,640

Total Commercial Paper (Cost \$279,247,705)		279,247,705

Total Investments before Repurchase Agreements (Cost \$319,247,968)		319,247,968

gRepurchase Agreements 13.2%		
BancAmerica Robertson Stephens, 5.40%, 1/02/98, (Maturity Value \$8,467,540)		
Collateralized by U.S. Treasury Notes	8,465,000	8,465,000
SBC Warburg Dillon Read, Inc., 6.50%, 1/02/98, (Maturity Value \$20,007,222)		
Collateralized by U.S. Treasury Notes	20,000,000	20,000,000
UBS Securities, L.L.C., 6.45%, 1/02/98, (Maturity Value \$20,007,167)		
Collateralized by U.S. Treasury Notes	20,000,000	20,000,000

Total Repurchase Agreements (Cost \$48,465,000)		48,465,000

Total Investments (Cost \$367,712,968) 100.1%		367,712,968
Other Assets, less Liabilities (.1%)		(263,829)

Net Assets 100.0%		\$367,449,139
		=====

dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.
 gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS
 Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ WARRANTS & RIGHTS <C>	VALUE <C>
Mutual Discovery Securities Fund			
<S>			
Common Stocks, Warrants and Rights 79.2%			
Aerospace & Military Technology			
Raytheon Co., A	United States	637	\$ 31,412

Automobiles .4%			
General Motors Corp.	United States	10,000	606,250

aMagneti Marelli SpA	Italy	77,300	130,698

			736,948

Banking 2.9%			
aBanca Nazionale del Lavoro SpA, fgn.	Italy	32,000	497,456
aBanque Cantonale Vaudoise, fgn.	Switzerland	600	204,837
BG Bank AS, fgn.	Denmark	20,500	1,379,252
aCredit National/Natexis	France	12,500	729,002
Merita Ltd., A	Finland	55,500	303,512
aNordbanken Holding AB	Sweden	94,000	531,568
Pacific Bank N.A.	United States	10,000	450,000
Western Bancorp	United States	47,975	1,583,164

			5,678,791

Beverages & Tobacco 3.5%			
B.A.T. Industries Plc.	United Kingdom	103,710	944,475
Diageo Plc.	United Kingdom	120,000	1,100,710
Farmer Brothers Co.	United States	2,500	467,500
Heineken Holding NV, A	Netherlands	3,125	480,852
Philip Morris Cos. Inc.	United States	37,000	1,676,563
RJR Nabisco Holdings Corp.	United States	50,000	1,875,000
aSeita	France	4,300	154,324
Swedish Match AB	Sweden	87,000	290,369

			6,989,793

Broadcasting & Publishing 7.0%			
Aamulehti Yhtymä OY, II	Finland	16,500	551,090
A-Pressen AS, A	Norway	20,600	453,898
Comcast Corp., Special A	United States	6,000	189,375
Dow Jones & Co. Inc.	United States	39,500	2,120,656
Dun & Bradstreet Corp.	United States	4,800	148,500
John Fairfax Holdings Ltd.	Australia	380,000	792,528
Midland Independent Newspapers Plc.	United Kingdom	50,000	173,269
Mirror Group Plc.	United Kingdom	240,000	774,537
aModern Times Group AB, fgn.	Sweden	36,000	215,368
NV Holdingsmij de Telegraaf	Netherlands	53,800	1,013,567
Pearson Plc.	United Kingdom	60,000	778,479
Quebecor Inc.	Canada	70,000	1,258,878
Shaw Brothers Hong Kong Ltd.	Hong Kong	278,000	206,285
Southam Inc.	Canada	75,000	1,430,146
United News & Media Plc.	United Kingdom	42,377	478,140
aUS West Media Group	United States	97,500	2,815,313
aYoung Broadcasting Corp., A	United States	10,000	387,500

			13,787,529

Building Materials & Components .3%			
Pilkington Plc.	United Kingdom	280,000	588,622

Business & Public Services 2.7%			
Cie Generale Des Eaux	France	3,500	488,494
Esselte AB, A	Sweden	29,700	561,090
Esselte AB, B	Sweden	10,000	202,773
IFIL Finanziaria Partecipazioni SpA	Italy	80,000	290,876
Suez Lyonnaise des Eaux SA	France	23,000	2,545,158
Business & Public Services (cont.)			
Wheelabrator Technologies Inc.	United States	30,000	\$ 481,875
Yorkshire Water Plc.	United Kingdom	97,000	771,055

			5,341,321

Chemicals 2.8%			
Allied Colloids Group Plc.	United Kingdom	290,000	797,776
aBush Boake Allen Inc.	United States	55,000	1,440,312
Chemfirst Inc	United States	15,000	423,750
aHolliday Chemical Holdings Plc.	United Kingdom	24,000	90,264
Inspec Group Plc.	United Kingdom	140,000	541,486
Laporte Plc.	United Kingdom	60,000	658,750
Morton International Inc.	United States	15,000	515,625
Olin Corp.	United States	15,000	703,125
Yule Catto & Company Plc.	United Kingdom	85,000	401,352

			5,572,440

Construction & Housing 1.1%			
Actividades de Construcciones y Servicio	Spain	16,500	399,639
a Actividades de Construcciones y Servicio (ACS), rts.	Spain	4,194	110
Grupo Acciona SA	Spain	4,709	768,400
Hollandsche Beton Groep NV	Netherlands	15,420	286,703
Martin Marietta Materials Inc.	United States	7,500	274,219
Skanska AB, B	Sweden	9,000	368,959

Data Processing & Reproduction .9%

aInso Corp.	United States	51,000	589,688
aNational Processing Inc.....	United States	75,000	740,625
Tecnost Mael SpA	Italy	190,000	385,585

			1,715,898

Electrical & Electronics .5%

Philips Electronics NV	Netherlands	7,000	419,796
Philips Electronics NV ADR	Netherlands	5,000	302,500
aWang Laboratories Inc., A	United States	14,500	320,813

			1,043,109

Electronic Components & Instruments 1.1%

aAmphenol Corp., A	United States	10,032	558,657
aDynatech Corp.	United States	15,000	703,125
aNBS Technologies Inc.	Canada	57,100	120,269
Spectra Physics AB, A	Sweden	43,800	830,225

			2,212,276

Energy Equipment & Services 3.9%

Bouygues Offshore SA, ADR	France	37,000	804,750
Cie Generale De Geophysique SA	France	6,199	793,093
aCie Generale De Geophysique SA, ADR	France	19,000	486,875
aISIS SA	France	4,000	438,648
Transocean Offshore Inc.....	United States	18,000	867,375
aTrico Marine Services Inc.....	United States	75,000	2,203,125
aUnited Meridian Corp.	United States	15,000	421,875
aVeritas DGC Inc.....	United States	46,000	1,817,000

			7,832,741

Energy Sources 2.4%

Saga Petroleum AS, B	Norway	89,000	1,351,593
Shell Transport & Trading Co. Plc.	United Kingdom	84,400	611,986

Energy Sources (cont.)

Societe Elf Aquitaine SA, ADR	France	15,000	\$ 879,375
Societe Elf Aquitaine SA	France	16,800	1,953,975

			4,796,929

Financial Services 5.3%

Advanta Corp., B	United States	40,000	1,015,000
Axa SA	France	1,000	77,378
Bayonne Bancshares Inc.	United States	25,500	341,062
aCityscape Financial Corp.	United States	8,000	4,000
aContinental Information Systems Inc.	United States	52,000	136,500
aDexia France.....	France	4,200	486,400
aEdinburg Dragon Trust Plc.	United Kingdom	50,000	45,165
Imperial Credit Commercial Mortgage Investment	United States	25,000	365,625
Julius Baer Holdings AG	Switzerland	300	556,221
cLaser Mortgage Management Inc.	United States	115,000	1,667,500
aLife Financial Corp.	United States	20,000	252,500
Long Island Bancorp Inc.	United States	8,000	397,000
Mercury Asset Management Group Plc.	United Kingdom	13,500	376,035
Morgan Stanley, Dean Witter Discover & Co.	United States	6,500	384,313
Pargesa Holdings SA	Switzerland	500	615,742
Pioneer Group Inc.	United States	17,500	492,188
aSecurity Capital Group, B	United States	42,500	1,381,250
aSPS Transaction Services Inc.	United States	8,000	180,500
Trilon Financial Corporation	Canada	210,000	1,689,934

			10,464,313

Food & Household Products 2.3%

Cadbury Schweppes Plc.	United Kingdom	81,212	806,945
aMetsa Tissue OY	Finland	55,000	529,894
Ralcorp Holdings Inc.....	United States	50,000	846,875
Scott's Restaurants Inc.	Canada	45,000	157,447
aScott's Restaurants Inc., C	Canada	70,000	251,041
U.S. Industries Inc.	United States	51,000	1,536,375
Van Melle NV	Netherlands	5,800	414,766

			4,543,343

Forest Products & Paper .1%

Fletcher Challenge Canada Ltd., A	Canada	10,000	136,454
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Health & Personal Care 4.1%

aApria Healthcare Group Inc.	United States	90,000	1,209,375
aBeverly Enterprises Inc.	United States	25,000	325,000

aFoundation Health Systems, A	United States	24,160	540,580
aMid-Atlantic Medical Services Inc.	United States	5,000	63,750
aOxford Health Plans Inc.	United States	60,000	933,750
aParagon Health Networks Inc.	United States	36,246	709,057
aPharMerica Inc.	United States	11,378	118,042
aSummit Care Corp.	United States	113,500	1,858,563
aUnited Dental Care Inc.	United States	40,000	430,000
aVencor Inc.	United States	30,000	733,125
aVitalink Pharmacy Services Inc.	United States	54,613	1,317,539
			8,238,781

Industrial Components 3.5%			
Charter Plc.	United Kingdom	131,612	1,615,753
DT Industries Inc.	United States	75,000	2,550,000
Kennametal Inc.	United States	30,000	1,554,375

Industrial Components (cont.)			
Lucas Varity Plc.	United Kingdom	250,000	\$ 884,821
Michelin SA, B	France	6,416	323,012

			6,927,961

Insurance 4.5%			
aAlleghany Corp.	United States	1,020	290,445
American General Corp.	United States	2,901	156,835
Arthur J Gallagher Co.	United States	18,700	643,981
Assurances Generales de France AGF	France	35,000	1,854,532
Citizens Corp.	United States	35,000	1,006,250
Guardian Royal Exchange Plc.	United Kingdom	85,000	453,702
Koelnische Rueckversicherungs AG	Germany	258	236,631
Pohjola Insurance Co. Ltd.	Finland	10,000	370,697
Pohjola Insurance Co. Ltd., A	Finland	5,000	187,183
PXRE Corp.	United States	24,100	799,819
Reliable Life Insurance Co., A	United States	2,000	227,000
Royal & Sun Alliance Insurance Group Plc.	United Kingdom	90,866	910,331
Sampo Insurance Co. Ltd., A	Finland	22,000	726,712
SCOR SA	France	8,900	425,591
aTopdanmark AS	Denmark	1,828	346,824
Twentieth Century Industries California	United States	2,500	65,000
aUnion Assurances Federales SA	France	2,283	299,671

			9,001,204

Leisure & Tourism .9%			
Gaylord Entertainment Co., A	United States	8,333	266,135
La Quinta Inns Inc.	United States	80,000	1,545,000

			1,811,135

Machinery & Engineering 3.3%			
Cardo AB	Sweden	9,000	234,638
IMI Plc.	United Kingdom	110,000	732,575
aMunters AB	Sweden	25,000	215,683
Partek AB	Finland	56,500	861,622
Rauma OY	Finland	28,500	444,561
Safety Kleen Corp.	United States	100,000	2,743,750
Triplex Lloyd Plc.	United Kingdom	82,777	370,463
TT Group Plc.	United Kingdom	190,000	862,814

			6,466,106

Merchandising 2.5%			
aBJ's Wholesale Club Inc.	United States	22,000	690,250
aDress Barn Inc.	United States	10,000	283,750
FKI Plc.	United Kingdom	50,000	157,667
aFood Lion Inc., B	United States	45,000	371,250
aFootstar Inc.	United States	20,000	537,500
aHomebase Inc.	United States	25,000	196,875
aNine West Group Inc.	United States	75,000	1,945,313
Vendome Luxury Group Plc.	United Kingdom	100,000	781,763

			4,964,368

Metals & Mining .6%			
aStillwater Mining Co.	United States	64,900	1,087,075
aWHX Corp.	United States	16,000	190,000

			1,277,075

Miscellaneous Materials & Commodities .1%			
De Beers/Centenary Linked Units, ADR	South Africa	13,000	265,687

Multi-Industry 12.5%			
Aker RGI ASA, A	Norway	39,500	\$ 712,339

Aker RGI ASA, B	Norway	71,940	1,170,549
Bulten AB, B	Sweden	34,500	312,850
CGIP-Compagnie Generale Industrie de Participation	France	3,561	1,278,019
Cie Financiere Richemont AG, A	Switzerland	1,035	1,125,885
Custos AB, A.....	Sweden	68,900	1,483,885
Custos AB, B.....	Sweden	41,540	878,943
Empire Co. Ltd., A.....	Canada	2,600	39,572
Financiere Et Industrielle Gaz Et Eaux SA	France	484	208,687
Gendis Inc. , A	Canada	62,300	926,402
aGTI Holding NV	Netherlands	28,000	701,502
Harcourt General Inc.	United States	15,000	821,250
Hogg Robinson Plc.	United Kingdom	60,000	251,774
Industrivarden AB, A	Sweden	3,900	218,580
Investor AB, A.....	Sweden	13,000	633,635
Investor AB, B	Sweden	35,000	1,705,941
Invik & Co. AB, A.....	Sweden	1,500	67,066
Invik & Co. AB, B.....	Sweden	5,500	245,910
Kansas City Southern Industries Inc.	United States	170,000	5,397,500
Kinnevik AB, B	Sweden	36,000	596,229
Lagardere S.C.A.	France	24,870	822,320
Marine Wendel SA.....	France	7,585	862,032
Montaigne Participations et Gestion SA	France	317	104,025
aMontedison SpA	Italy	650,000	582,759
Sophus Berendsen AS, B	Denmark	12,350	2,036,734
Ste Eurafrance	France	950	386,724
Ste Generale de Belgique SA	Belgium	8,300	759,413
Tomkins Plc.	United Kingdom	90,977	424,344

			24,754,869

Real Estate 5.0%			
Ambassador Apartments Inc.	United States	75,000	1,542,187
Berkshire Realty Co.	United States	64,800	777,600
aCastellum AB	Sweden	32,000	318,392
First Union Real Estate Equity & Mtg. Investments, SBI	United States	80,000	1,300,000
aInsignia Financial Group Inc.	United States	40,000	920,000
LNR Property Corp.	United States	28,000	661,500
aLNR Property Corp., B	United States	39,000	921,375
Mark Centers Trust	United States	30,000	270,000
Prime Group Realty Trust	United States	50,000	1,012,500
cRE Acquisition LLC	United States	272,776	272,449
SL Green Realty Corporation	United States	20,000	518,750
Ste des Immeubles De France	France	4,059	243,466
Tower Realty Trust Inc.	United States	50,000	1,231,250

			9,989,469

Recreation & Other Consumer Goods 1.0%			
EMI Group Plc.	United Kingdom	115,000	990,158
aScientific Games Holdings Corp	United States	50,000	1,012,500

			2,002,658

Telecommunications 1.5%			
aCellular Communications International Inc.	United States	20,000	935,000
aCS Wireless Inc.	United States	309	3
Koninklijke Ptt Nederland NV	Netherlands	31,000	1,293,418
Telephone & Data Systems Inc.	United States	15,000	696,292

			2,924,713

Transportation 2.2%			
Florida East Coast Industries Inc.	United States	3,000	\$ 288,375
aFritz Companies Inc.	United States	20,000	278,750
cGolden Ocean Group Ltd., wts.	United States	515	2,575
aLandstar System Inc.	United States	20,000	527,500
Railtrack Group Plc.	United Kingdom	131,576	2,098,284
Smit Internationale NV, fgn.	Netherlands	10,200	276,675
Tranz Rail Holdings Ltd.	New Zealand	10,000	37,742
Tranz Rail Holdings Ltd., ADR	New Zealand	75,000	862,500

			4,372,401

Utilities - Electrical, Gas & Water .3%			
aCitizens Utilities Co., B	United States	70,000	673,750

Total Common Stocks, Warrants and Rights (Cost \$146,577,528)			157,240,126

Preferred Stocks .3%			
Gerdau SA, pfd.	Brazil	3,500,000	43,905
Houghton Mifflin Co., 6.00%, conv., pfd.	United States	20,000	512,000
North Atlantic Trading Company Inc. , 12.00%, pfd.	United States	5,291	142,857

Total Preferred Stocks (Cost \$771,946)			698,762

PRINCIPAL
AMOUNT*

Bonds & Notes 2.3%			
American Communication Services, Inc. , senior disc. notes, zero coupon to 11/01/00, (original accretion rate 13.00%), 13.00% thereafter, 11/01/05	United States	400,000	322,000
Boston Chicken, 15.25%, 6/01/15	United States	1,250,000	189,062
Computervision Corp., 11.375%, 8/15/99	United States	500,000	505,625
Computervision Corporation, 8.00%, 12/1/09	United States	350,000	323,750
Consortio G Grupo Dina, SA de CV, zero coupon, 11/15/02	Mexico	100,000	90,500
CS Wireless Systems, Inc. , senior disc. Notes, Series B, zero coupon to 3/01/01, (original accretion rate 11.375%), 11.375% thereafter, 3/01/06	United States	1,125,000	298,125
Delco Remy International, 11.50%, 7/31/04	United States	700,000	710,500
Dow Corning Corp., 9.375%, 2/1/08	United States	300,000	382,500
Global Ocean Carriers Ltd., 10.25%, 7/15/07, 144A	United States	150,000	144,000
Globalstar LP, 10.75%, 11/1/04	United States	200,000	196,000
cGolden Ocean Group Ltd., 10.00%, 8/31/01	United States	250,000	205,000
North Atlantic Trading Company Inc. , 11.00%, 6/15/04	United States	100,000	104,250
Olivetti International NV, 3.75%, conv., 12/31/99	Italy	680,000,000 ITL	426,682
aPeoples Choice TV Corp., senior disc. Notes, 13.125%, 6/01/04.....	United States	500	180,000
Sassco Fashions Ltd., 12.75%, 2/15/05, w/i	United States	119,414	124,788
TFM, SA de CV, 10.25%, 6/15/07, 144A	Mexico	250,000	257,500
TFM, SA de CV, zero coupon to 6/15/02, (original accretion rate 11.75%), 11.75%..... thereafter, 6/15/09	Mexico	300,000	191,250
Total Bonds & Notes (Cost \$4,423,687)			4,651,532

Bonds & Notes in Reorganization 1.1%			
Buenos Aires Embotelladora SA, bank claim	United States	890,634	623,444
Eurotunnel Finance Ltd., Bank Claim:			
Tranche B	United Kingdom	50,000 XEU	28,566
Tranche B	United Kingdom	860,000 GBP	748,588
Ionica Plc., 15.00%, 5/01/07	United Kingdom	750,000	303,750
Mercury Finance Co., Commercial Paper:			
3/17/47	United States	11,526	9,566
4/11/47	United States	5,243	4,352
4/18/47	United States	14,682	12,186
4/22/47	United States	8,389	6,963
4/24/47	United States	12,584	10,444
Mercury Finance Co., Bank Claim, MTN:			
7.42%, 6/29/00	United States	189,953	\$ 157,661
8.15%, 5/14/47	United States	275,173	228,393
Total Bonds & Notes in Reorganization (Cost \$2,154,121)			2,133,913

Total Long Term Investments (Cost \$153,927,282)			164,724,333

dShort Term Investments 15.3%			
Federal Home Loan Bank, 5.37% to 5.48%, with maturities to 1/23/98	United States	3,400,000	3,395,605
Federal Home Loan Mortgage Corp., 5.46% to 5.64%, with maturities to 2/13/98	United States	5,600,000	5,577,985
Federal National Mortgage Assn., 5.355% to 5.650%, with maturities to 4/22/98	United States	21,500,000	21,336,534
Total Short Term Investments (Cost \$30,626,898)			30,310,124

Total Investments (Cost \$184,554,180) 98.2%			195,034,457
Net Equity in Forward Contracts			1,125,546
Other Assets, less Liabilities 1.8%			2,492,759

Net Assets 100.0%			\$198,652,762
=====			

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.

aNon-income producing.

c See Note 8 regarding restricted securities.

dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

Mutual Shares Securities Fund	COUNTRY	SHARES/ WARRANTS <C>	VALUE <C>
<S>			
Common Stocks and Warrants 73.4%			
Aerospace & Military Technology 1.6%			
Boeing Co.	United States	33,450	\$ 1,636,959

aHexcel Corp.	United States	42,000	1,047,375
Lockheed Martin Corp.	United States	25,000	2,462,500
Northrop Grumman Corp.	United States	5,000	575,000
Raytheon Co., A	United States	10,255	505,700

			6,227,534

Appliances & Household Durables .5%			
Black & Decker Corp.	United States	50,000	1,953,125

Automobiles 1.4%			
General Motors Corp.	United States	55,000	3,334,375
Regie Nationale des Usines Renault SA	France	78,550	2,209,606

			5,543,981

Banking 3.8%			
Chase Manhattan Corp.	United States	28,000	3,066,000
First Union Corp.	United States	71,000	3,638,750
Fleet Financial Group Inc.	United States	52,000	3,896,750
Mellon Bank Corp.	United States	15,000	909,375
PNC Bank Corp.	United States	20,000	1,141,250
Wells Fargo & Co.	United States	6,000	2,036,625

			14,688,750

Beverages & Tobacco 5.5%			
B.A.T. Industries Plc.	United Kingdom	305,867	2,785,495
Diageo Plc.	United Kingdom	125,000	1,146,572
Gallaher Group Plc.	United Kingdom	360,000	1,909,736
Gallaher Group Plc., ADR	United Kingdom	18,500	395,438
Heineken Holding NV, A	Netherlands	10,600	1,631,050
Philip Morris Cos. Inc.	United States	100,000	4,531,250
RJR Nabisco Holdings Corp.	United States	100,000	3,750,000
UST Inc.	United States	135,000	4,986,563

			21,136,104

Broadcasting & Publishing 9.3%			
Comcast Corp., Special A	United States	50,000	1,578,125
Daily Mail & General Trust Plc., A	United Kingdom	25,300	836,228
Dow Jones & Co. Inc.	United States	76,500	4,107,094
Dun & Bradstreet Corp.	United States	14,000	433,125
Houghton Mifflin Co.	United States	70,000	2,686,250
Readers Digest Association Inc., A	United States	40,000	945,000
Scripps Co., A	United States	60,000	2,906,250
aSFX Broadcasting Inc., A	United States	20,000	1,605,000
Southam Inc.	Canada	150,000	2,860,292
Time Warner Inc.	United States	53,000	3,286,000
United News & Media Plc.	United Kingdom	123,020	1,388,036
aUS West Media Group	United States	390,000	11,261,240
aValassis Communications Inc.	United States	50,000	1,850,000

			35,742,640

Building Materials & Components 1.0%			
aAmerican Standard Cos. Inc.	United States	80,000	3,065,000
Johns-Manville Corp.	United States	100,000	1,006,250

			4,071,250

Business & Public Services 1.3%			
Moore Corp. Ltd.....	Canada	38,200	577,775
Moore Corp. Ltd., ORD	Canada	50,000	752,248
Suez Lyonnaise des Eaux SA	France	32,000	3,541,082

			4,871,105

Chemicals 1.9%			
General Chemical Group Inc.	United States	25,000	\$ 668,750
Morton International Inc.	United States	75,000	2,578,125
Olin Corp.	United States	70,000	3,281,250
Rohm & Haas Co.	United States	8,500	813,875

			7,342,000

Construction & Housing .3%			
Martin Marietta Materials Inc.	United States	30,000	1,096,875

Data Processing & Reproduction .6%			
First Data Corp	United States	38,000	1,111,500
aNCR Corp.	United States	42,500	1,182,030

			2,293,530

Electronic Components & Instruments .3%			
Fisher Scientific International Inc.	United States	25,000	1,193,750
Energy Equipment & Services 2.5%			
aNoble Drilling Corp.	United States	45,000	1,378,125
aReading & Bates Corp.	United States	45,000	1,884,375
aRowan Companies Inc.	United States	71,300	2,174,650
Transocean Offshore Inc.	United States	27,000	1,301,063
aUnited Meridian Corp.	United States	100,000	2,812,500
			9,550,713
Energy Sources 5.8%			
Imperial Oil Ltd.	Canada	30,000	1,918,125
Kerr McGee Corp.	United States	40,000	2,532,500
Noble Affiliates Inc.	United States	37,500	1,321,875
aNuevo Energy Co.	United States	25,000	1,018,750
Pennzoil Co.	United States	50,000	3,340,625
Saga Petroleum AS, B	Norway	89,300	1,356,149
a Santa Fe Energy Resources Inc.	United States	277,100	3,117,375
Sell Transport & Trading Co. Plc.	United Kingdom	158,300	1,147,836
Societe Elf Aquitaine SA	France	46,000	5,350,170
Tidewater Inc.	United States	15,000	826,875
Union Texas Petroleum Holdings Inc.	United States	30,000	624,375
			22,554,655
Financial Services 5.9%			
Advanta Corp., B	United States	100,000	2,537,500
Beneficial Corp.	United States	29,000	2,410,625
aCIT Group Inc., A	United States	25,000	806,250
a Cityscape Financial Corp.	United States	12,000	6,000
Equifax Inc.	United States	50,000	1,771,875
cLaser Mortgage Management Inc.	United States	220,000	3,190,000
Lehman Brothers Holdings Inc.	United States	11,000	561,000
Morgan Stanley, Dean Witter Discover & Co.	United States	105,000	6,208,125
Power Financial Corp.	Canada	5,000	174,941
Providian Financial Corp.	United States	2,100	94,894
United Asset Management Corp.	United States	204,000	4,985,250
			22,746,460
Food & Household Products 2.7%			
Cadbury Schweppes Plc.	United Kingdom	103,270	1,026,119
Nabisco Holdings Corp., A	United States	100,000	4,843,750
U.S. Industries Inc.	United States	75,000	2,259,375
Van Melle NV	Netherlands	32,672	2,336,419
			10,465,663
Forest Products & Paper 1.9%			
Bowater Inc.	United States	30,000	1,333,125
Champion International Corp.	United States	50,000	2,265,625
Forest Products & Paper (cont.)			
Greif Brothers Corp., A	United States	5,000	\$ 167,500
Longview Fibre Co.	United States	60,000	911,250
St. Joe Paper Corp.	United States	19,000	1,719,500
Temple Inland Inc.	United States	15,111	790,494
			7,187,494
Health & Personal Care 4.4%			
Aetna Inc.	United States	30,000	2,116,874
aApria Healthcare Group Inc.	United States	135,000	1,814,063
aBeverly Enterprises Inc.	United States	60,000	780,000
aFoundation Health Systems, A	United States	125,470	2,807,390
aMaxicare Health Plans Inc.	United States	82,500	897,188
aMid-Atlantic Medical Services Inc.	United States	15,000	191,250
aOxford Health Plans Inc.	United States	10,000	155,625
aPacifiCare Health Systems Inc., A	United States	35,000	1,758,750
aPacifiCare Health Systems Inc., B	United States	24,500	1,283,188
aParagon Health Networks Inc.	United States	36,950	722,825
aPharMerica Inc.	United States	27,306	283,300
aTenet Healthcare Corp.	United States	20,000	662,500
United States Surgical Corp.	United States	62,500	1,832,031
aVencor Inc.	United States	75,000	1,832,813
			17,137,797
Industrial Components 1.7%			
Charter Plc.	United Kingdom	100,000	1,227,664
aITT Industries Inc.	United States	75,000	2,353,125
Lucas Varsity Plc.	United Kingdom	1,080,000	2,406,714
Lucas Varsity Plc., ADR	United Kingdom	10,300	359,213
aOwens-Illinois Inc.	United States	7,800	295,913

Insurance 3.1%			
aAlleghany Corp.	United States	2,550	726,113
American General Corp.	United States	7,252	392,061
AON Corp.	United States	42,300	2,479,838
Argonaut Group Inc.	United States	51,206	1,734,603
Fund American Enterprises Holdings Inc.	United States	25,000	3,025,000
Selective Insurance Group Inc.	United States	6,000	162,000
Twentieth Century Industries California	United States	16,200	421,200
Unitrin Inc.	United States	20,000	1,292,500
Western National Corp.	United States	58,000	1,718,250
			11,951,565
Leisure & Tourism 4.0%			
aCircus Circus Enterprises Inc.	United States	116,500	2,388,250
Hilton Hotels Corp.	United States	150,000	4,462,500
ITT Corp.	United States	60,000	4,972,500
aMGM Grand Inc.	United States	105,000	3,786,562
			15,609,812
Machinery & Engineering .5%			
Briggs & Stratton Corp.	United States	25,000	1,214,063
New Holland NV	Netherlands	30,000	793,125
			2,007,188
Merchandising 1.3%			
American Stores Co.	United States	105,000	2,159,063
Dillard's Inc., A	United States	15,000	528,750
aWoolworth Corp.	United States	125,000	2,546,875
			5,234,688
Metals & Mining .8%			
Aluminum Co. of America	United States	4,000	\$ 281,500
LTV Corp.	United States	110,000	1,072,500
Reynolds Metals Co.	United States	32,000	1,920,000
			3,274,000
Multi-Industry 3.9%			
Harcourt General Inc.	United States	35,000	1,916,250
Investor AB, A	Sweden	119,200	5,809,946
Investor AB, B	Sweden	93,100	4,537,803
Lagardere S.C.A.	France	40,462	1,337,865
McMillan Bloedel Ltd.	Canada	50,000	519,576
Power Corp. of Canada	Canada	25,000	895,700
			15,017,140
Real Estate .6%			
aAlexander's Inc.	United States	8,000	726,500
aInsignia Financial Group Inc.	United States	65,000	1,495,000
Reckson Associates Realty Corp.	United States	10,000	253,750
			2,475,250
Telecommunications 4.4%			
a360 Degrees Communications Company	United States	125,000	2,523,438
aCS Wireless Inc.	United States	618	5
aGeneral Motors Corp., H	United States	12,000	443,250
aLoral Space & Communications Ltd.	United States	75,000	1,607,813
MCI Communications Corp.	United States	100,000	4,281,250
Sprint Corp.	United States	18,000	1,055,250
aTelecommunications Inc.- TCI Ventures Group, A	United States	154,000	4,360,125
Telephone & Data Systems Inc.	United States	63,400	2,952,063
			17,223,194
Transportation 2.1%			
Burlington Northern Santa Fe Corp.	United States	14,000	1,301,124
Florida East Coast Industries Inc.	United States	12,500	1,201,563
aGolden Ocean Group Ltd., wts.	United States	935	4,675
Railtrack Group Plc.	United Kingdom	233,152	3,718,148
Xtra Corp.	United States	32,000	1,876,000
			8,101,510
Utilities - Electrical, Gas & Water .3%			
Nova Corp.	Canada	120,000	1,142,017
Total Common Stocks and Warrants (Cost \$260,174,159)			284,482,419

Preferred Stocks				
North Atlantic Trading Company Inc., 12.00%, pfd. (Cost \$132,712)	United States	5,291		142,857
			PRINCIPAL AMOUNT*	
Bonds & Notes 2.4%			<C>	<C>
<S>				
American Communication Services, Inc., senior disc. notes, zero coupon to 11/01/00, (original accretion rate 13.00%), 13.00% thereafter, 11/01/05	United States	700,000		563,500
Boston Chicken, Inc., cvt., zero coupon, 6/01/15	United States	1,850,000		279,813
Computervision Corp., 11.375%, 8/15/99	United States	500,000		505,625
Consortio G Grupo Dina, SA de CV, zero coupon, 11/15/02	Mexico	175,000		158,375
CS Wireless Systems, Inc., senior disc. Notes, Series B, zero coupon to 3/01/01, (original accretion rate 11.375%), 11.375% thereafter, 3/01/06	United States	2,250,000		596,250
Delco Remy International, 11.50%, 7/31/04	United States	1,300,000		1,319,500
Dow Corning Corp., 9.375%, 2/1/08	United States	550,000		701,250
Falcon Building Products Inc., 10.50%, 6/15/07, 144A	United States	1,000,000		662,500
Global Ocean Carriers Ltd., 10.25%, 7/15/07, 144A	United States	250,000		240,000
Globalstar LP, 10.75%, 11/1/04	United States	300,000		\$ 294,000
c Golden Ocean Group Ltd., 10.00%, 8/31/01	United States	450,000		369,000
Ivax Corp., 6.50%, conv., 11/15/01	United States	370,000		317,275
North Atlantic Trading Company Inc., 11.00%, 6/15/04	United States	100,000		104,250
Olivetti International NV, 3.75%, conv., 12/31/99	Italy	1,170,000,000	ITL	734,144
a Peoples Choice TV Corp., senior disc. Notes, 13.25%, 6/01/04	United States	500		180,000
Sassco Fashions Ltd., 12.75%, 2/15/05, w/i	United States	199,023		207,979
Specialty Foods Corp., 11.25%, 8/15/03, B	United States	800,000		752,000
TFM SA de CV, 10.25%, 6/15/07, 144A	Mexico	250,000		257,500
TFM SA de CV, zero coupon to 6/15/02, 11.75%, 6/15/09	Mexico	600,000		382,500
Uniforet Inc., 11.125%, 10/15/06	Canada	500,000		477,500
Wavetek Corporation, 10.125%, 6/15/07, 144A	United States	500,000		515,000
Total Bonds & Notes (Cost \$9,510,436)				9,617,961
Bonds & Notes in Reorganization 1.3%				
Barney's Inc.				
7.18%, 6/15/00	United States	2,500,000		912,500
8.32%, 6/15/00	United States	1,000,000		365,000
Dow Corning Corp., bank claim	United States	100,000		123,500
Eurotunnel Finance Ltd., Bank Claims:				
Tranche B	United Kingdom	84,000	XEU	47,991
Tranche B	United Kingdom	1,540,000	GBP	1,340,493
Ionica Plc., 5/01/07	United Kingdom	1,350,000		546,750
Mercury Finance Co., Commercial Paper:				
3/17/97	United States	23,052		19,133
4/11/97	United States	10,487		8,704
4/16/97	United States	846,395		702,508
4/18/97	United States	29,363		24,371
4/22/97	United States	16,778		13,926
4/24/97	United States	25,167		20,899
Mercury Finance Co., Bank Claim, MTN:				
7.42%, 6/29/00	United States	316,588		262,768
8.15%, 5/14/97	United States	529,684		439,638
Total Bonds & Notes in Reorganization (Cost \$4,433,524)				4,828,181
Total Long Term Investments (Cost \$274,250,831)				299,071,418
dShort Term Investments 23.3%				
Federal Home Loan Bank, 5.37% to 5.55%, with maturities to 3/20/98		20,500,000		20,390,768
Federal Home Loan Mortgage Corp., 5.46% to 5.63%, with maturities to 2/17/98		9,835,000		9,781,908
Federal National Mortgage Assn., 5.355% to 5.650%, with maturities to 4/27/98		60,705,000		60,190,868
Total Short Term Investments (Cost \$90,338,555)				90,363,544
Total Investments (Cost \$364,589,386) 100.4%				389,434,962
Securities Sold Short (.2)%				(907,500)
Net Equity in Forward Contracts .2%				686,688
Other Assets, less Liabilities (.4)%				(1,426,818)
Net Assets 100.0%				\$387,787,332
Securities Sold Short				
ISSUER	COUNTRY	SHARES	VALUE	
aWorldcom Inc. (proceeds \$983,153)	United States	30,000	\$	(907,500)

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.
aNon-income producing.
cSee Note 8 regarding restricted securities.
dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.

Franklin Valuemark Funds
Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ WARRANTS <C>	VALUE <C>
Natural Resources Fund			
<S>			
bCommon Stocks and Warrants 93.7%			
Papua New Guinea			
Chemicals 7.8%			
aAirgas, Inc.	United States	28,000	\$ 392,000
Avery Dennison Corp.	United States	24,000	1,074,000
BetzDearborn, Inc.	United States	15,000	915,938
Hanna (M.A.) Co.	United States	30,000	757,500
IMC Global, Inc.	United States	17,000	556,750
Potash Corp. of Saskatchewan, Inc.	Canada	10,000	830,000
Praxair, Inc.	United States	25,100	1,129,500
Sigma-Aldrich Corp.	United States	5,000	198,750

			5,854,438

Environmental/Engineering & Construction/Capital Goods 2.2%			
aAtchinson Casting Corp.	United States	24,500	398,125
aDenison International, Plc. ADR	United Kingdom	35,500	612,375
aOwens-Illinois, Inc.	United States	17,100	648,731

			1,659,231

Forest Products & Paper/Packaging 2.3%			
Asia Pulp & Paper Co., Ltd., Sponsored ADR	Indonesia	75,000	754,688
Crown Cork & Seal Co.	United States	20,000	1,002,500

			1,757,188

Metals - Diversified 4.3%			
a Austral Coal, Ltd.	Australia	2,937,000	689,109
Freeport-McMoRan Copper & Gold, Inc., Class A	United States	38,718	592,869
Pohang Iron & Steel Co., Ltd., Sponsored ADR	Korea	29,800	519,638
Rio Tinto, Plc.	United Kingdom	68,429	792,876
Vale do Rio Doce, ADR	Brazil	30,500	613,526

			3,208,018

Mining - Precious Metals 17.9%			
aAber Resources, Ltd.	Canada	76,500	808,334
Anglo American Platinum Corp., Ltd., ADR	South Africa	67,179	897,283
Ashanti Goldfields Co., Ltd., Sponsored GDR	Ghana	86,330	647,475
aAsquith Resources, Inc., 144A	Canada	565,600	57,389
Barrick Gold Corp.	Canada	52,895	985,169
aCanyon Resources Corp.	United States	210,000	249,375
Canyon Resources Corp., warrants	United States	105,000	--
Compania de Minas Buenaventura, SA, Sponsored ADR, 144A	Peru	72,800	1,164,800
De Beers Consolidated Mines, Ltd., ADR	South Africa	40,000	817,500
Driefontein Consolidated, Ltd., Sponsored ADR	South Africa	124,500	824,813
aEquinox Resources, N.L.	Australia	1,480,000	154,334
Euro-Nevada Mining Corp.	Canada	58,200	788,055
Franco-Nevada Mining Corp., Ltd.	Canada	39,900	784,570
aLihir Gold, Ltd.	Papua New Guinea	329,500	343,603
aMinefinders Corp., Ltd.	Canada	275,700	407,073
Newmont Mining Corp.	United States	32,755	962,178
Normandy Mining, Ltd.	Australia	1,568,952	1,523,622
Placer Dome, Inc.	Canada	82,800	1,050,525
aStillwater Mining Co., 144A	United States	32,300	524,875
Vaal Reefs Exploration & Mining Co., Ltd., ADR	Portugal	109,000	418,974

			13,409,947

Oil Field Services 20.3%			
aCore Laboratories, NV	United States	53,400	964,538
aDiamond Offshore Drilling, Inc.	United States	43,000	2,069,375
aEVI, Inc.	United States	50,000	2,587,500
aFalcon Drilling Co., Inc.	United States	22,000	771,375
aNorton Drilling Services, Inc.	United States	90,000	188,442
aRowan Cos., Inc.	United States	30,000	915,000
aStolt Comex Seaway, SA	United States	15,700	785,000
Oil Field Services (cont.)			
aTesco Corp.	Canada	54,200	\$ 805,955
Tidewater, Inc.	United States	15,000	826,875
aTransCoastal Marine Services, Inc.	United States	60,000	855,000
Transocean Offshore, Inc.	United States	45,000	2,168,438
aUTI Energy Corp.	United States	18,000	465,750

aVarco International, Inc.	United States	85,000	1,822,188

			15,225,436

Oil/Gas Exploration & Production 24.9%			
aAbacan Resource Corp.	Canada	90,000	141,703
aAbacan Resource Corp.	United States	182,900	285,781
aAtwood Oceanics, Inc.	United States	24,000	1,137,000
Baker Hughes, Inc.	United States	22,000	959,750
aBarrett Resources Corp.	United States	90,400	2,734,600
aBasin Exploration, Inc.	United States	53,000	940,750
aBenton Oil & Gas Co.	United States	60,000	776,250
aEncal Energy, Ltd.	Canada	141,800	466,366
aGulf Canada Resources, Ltd.	Canada	365,000	2,555,000
aMagnum Hunter Resources, Inc.	United States	145,000	752,188
aNational Energy Group, Inc.	United States	245,000	995,313
aNewfield Exploration Co.	United States	35,000	815,938
aNuevo Energy Co.	United States	31,000	1,263,250
aOcean Energy, Inc.	United States	17,000	838,313
Patina Oil & Gas Corp.	United States	100,500	772,594
aSummit Resources, Ltd.	Canada	150,000	477,590
aTitan Exploration, Inc.	United States	96,700	918,650
aTriton Energy, Ltd.	United States	10,000	291,875
aUnited Meridian Corp.	United States	25,000	703,125
Unocal Corp.	United States	22,000	853,875

			18,679,911

Oil/Gas Integrated 4.4%			
Atlantic Richfield Co.	United States	18,000	1,442,250
YPF Sociedad Anonima, Sponsored ADR	Argentina	55,000	1,880,312

			3,322,562

Oil/Gas Pipelines & Distribution 3.6%			
aAES Corp.	United States	32,200	1,501,324
Enron Corp.	United States	28,000	1,163,750

			2,665,074

Real Estate Investment Trusts 4.0%			
aAlexandria Real Estate Equities, Inc.	United States	19,800	624,937
Arden Realty Group, Inc.	United States	25,000	768,750
FelCor Suite Hotels, Inc.	United States	21,000	745,500
Storage Trust Realty	United States	31,800	836,737

			2,975,924

Steel 2.0%			
a Ispat International, NV, New York Shares	United States	26,900	581,712
a UCAR International, Inc.	United States	23,100	922,555

			1,504,267

Total Common Stocks and Warrants (Cost \$78,340,492)			70,261,996

bConvertible Bonds 1.0%			
Dayton Mining Corp. cvt. sub. deb., 144A, 7.00%, 4/01/02	Canada	800,000	\$ 552,000
Rangold & Exploration Co., Ltd., cvt. sub. notes, 144A, 7.00%, 10/03/01	South Africa	215,000	116,100
Williams Resources, Inc., cvt. sub. deb., 8.00%, 1/23/02	Canada	200,000 CAD	44,785

Total Convertible Bonds (Cost \$1,164,740)			712,885

Total Long Term Investments (Cost \$79,505,232)			70,974,881

f Repurchase Agreement 6.7%			
Joint Repurchase Agreement, 6.285%, 1/02/98 (Maturity Value \$5,018,606) (Cost \$5,016,854)	United States	5,016,854	5,016,854

BancAmerica Robertson Stephens (Maturity Value \$155,576)			
Barclays Capital Group, Inc., (Maturity Value \$461,712)			
BT Alex Brown, Inc. (Maturity Value \$431,600)			
Chase Securities, Inc., (Maturity Value \$461,712)			
CIBC Wood Gundy Securities Corp., (Maturity Value \$461,712)			
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$461,712)			
Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$461,712)			
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$461,712)			
Greenwich Capital Markets, Inc. (Maturity Value \$276,022)			
Paribas Corp. (Maturity Value \$461,712)			
SBC Warburg Dillon Read, Inc. (Maturity Value \$461,712)			
UBS Securities, L.L.C., (Maturity Value \$461,712)			
Collateralized by U.S. Treasury Bills & Notes			
Total Investments (Cost \$84,522,086) 101.4%			75,991,735
Other Assets, less Liabilities (1.4)%			(1,067,425)

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.

aNon-income producing.

fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

Real Estate Securities Fund	SHARES/ WARRANTS	VALUE
<S>	<C>	<C>
Common Stocks and Warrants 96.6%		
Equity REIT - Apartments 16.8%		
Amlı Residential Properties Trust	180,000	\$ 4,005,000
Bay Apartment Communities, Inc.	175,000	6,825,000
Camden Property Trust	190,000	5,890,000
Charles E. Smith Residential Realty, Inc.	135,000	4,792,500
Equity Residential Properties Trust	256,000	12,944,000
Gables Residential Trust	195,000	5,386,875
Irvine Apartment Communities, Inc.	155,600	4,950,025
Oasis Residential, Inc.	147,000	3,279,938
Post Properties, Inc.	120,000	4,875,000
Security Capital Atlantic, Inc.	371,250	7,842,656
Security Capital Pacific Trust	354,285	8,591,411
Summit Properties, Inc.	225,000	4,753,125

		74,135,530

Equity REIT - Health Care 4.5%		
Alexandria Real Estate Equities, Inc.	116,000	3,661,250
Health Care Property Investors, Inc.	125,000	4,726,563
Nationwide Health Properties, Inc.	200,000	5,100,000
Omega Healthcare Investors, Inc.	168,000	6,489,000

		19,976,813

Equity REIT - Hotels 12.5%		
FelCor Suite Hotels, Inc.	360,000	12,780,000
Innkeepers USA Trust	367,600	5,697,800
Patriot American Hospitality, Inc.	455,006	13,081,423
Starwood Lodging Trust	265,050	15,339,769
Winston Hotels, Inc.	620,000	8,176,250

		55,075,242

Equity REIT - Industrial 10.9%		
AMB Property Corp.	80,000	2,010,000
Duke Realty Investments, Inc.	260,000	6,305,000
Liberty Property Trust	275,000	7,854,688
Meridian Industrial Trust, Inc.	300,000	7,650,000
Security Capital Industrial Trust	400,879	9,971,865
Spieker Properties, Inc.	200,000	8,575,000
Weeks Corp.	170,000	5,440,000

		47,806,553

Equity REIT - Mixed Property Type 3.6%		
Colonial Properties Trust	195,000	5,874,375
Glenborough Realty Trust, Inc.	330,000	9,776,250

		15,650,625

Equity REIT - Office 11.9%		
Arden Realty Group, Inc.	325,000	9,993,750
Crescent Real Estate Equities Co.	300,000	11,812,500
Equity Office Properties Trust	281,008	8,869,315
Highwoods Properties, Inc.	275,000	10,226,563
Mack-Cali Realty Corp.	225,000	9,225,000
SL Green Realty Corp.	57,000	1,478,438
Tower Realty Trust, Inc.	35,100	864,338

		52,469,904

Equity REIT - Residential Communities 2.4%		
Manufactured Home Communities, Inc.	200,000	5,400,000
Sun Communities, Inc.	140,000	5,031,250

		10,431,250

Equity REIT - Retail - Community Centers 7.6%		
Burnham Pacific Properties, Inc.	220,000	\$ 3,368,750
Developers Diversified Realty Corp.	110,000	4,207,500
Kimco Realty Corp.	180,000	6,345,000
cPacific Retail Trust	866,067	11,258,871
Vornado Realty Trust	180,000	8,448,750

		33,628,871

Equity REIT - Retail - Regional Malls 4.7%		
Simon DeBartolo Group, Inc.	310,000	10,133,125
The Macerich Co.	180,000	5,130,000
The Mills Corp.	215,000	5,267,500

		20,530,625

Equity REIT - Storage 6.0%		
Public Storage, Inc.	350,000	10,281,250
Storage Trust Realty	390,000	10,261,875
Storage USA, Inc.	150,500	6,010,594

		26,553,719

Home Builders 4.1%		
aBeazer Homes USA, Inc.	100,000	1,993,750
aBelmont Homes, Inc.	306,100	2,353,144
Clayton Homes, Inc.	281,250	5,062,500
aNVR, Inc.	250,000	5,468,750
aSouthern Energy Homes, Inc.	193,100	1,544,800
aUS Home Corp.	45,000	1,766,250

		18,189,194

Hotels 7.6%		
a,eCandlewood Hotel Co., Inc.	650,000	5,687,500
aCapStar Hotel Co.	350,000	12,009,375
aHost Marriott Corp.	570,000	11,186,250
aPrime Hospitality Corp.	224,500	4,574,187

		33,457,312

Mixed Property Type 4.0%		
aCrescent Operating, Inc.	27,500	673,750
aSecurity Capital Group Inc., Class B	125,400	4,075,500
aSecurity Capital Group Inc., Class B, warrants	63,712	334,487
aSecurity Capital US Realty	500,000	7,100,000
aTrammell Crow Co.	71,800	1,848,849
aVail Resorts, Inc.	138,000	3,579,374

		17,611,960

Total Common Stocks and Warrants (Cost \$295,217,467)		425,517,598

fRepurchase Agreement 6.5%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$28,796,224) (Cost \$28,786,173)	\$28,786,173	\$ 28,786,173

BancAmerica Robertson Stephens. (Maturity Value \$892,682)		
Barclays Capital Group, Inc. (Maturity Value \$2,649,253)		
BT Alex Brown, Inc. (Maturity Value \$2,476,474)		
Chase Securities, Inc. (Maturity Value \$2,649,253)		
CIBC Wood Gundy Securities Corp. (Maturity Value \$2,649,253)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$2,649,253)		
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$2,649,253)		
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$2,649,253)		
Greenwich Capital Markets, Inc. (Maturity Value \$1,583,791)		
Paribas Corp. (Maturity Value \$2,649,253)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$2,649,253)		
UBS Securities, L.L.C. (Maturity Value \$2,649,253)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$324,003,640) 103.1%		454,303,771
Other Assets, less Liabilities (3.1)%		(13,749,508)

Net Assets 100.0%		\$440,554,263
		=====

aNon-income producing.

cSee Note (8) regarding restricted securities.

eThe Investment Company Act of 1940 defines "affiliated companies" as investments in portfolio companies in which the Fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" at 12/31/97 were \$5,687,500.

fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	SHARES <C>	VALUE <C>
Rising Dividends Fund		
<S>		
Common Stocks 97.8%		
Banks 14.5%		
CoreStates Financial Corp.	41,800	\$ 3,346,613
First Union Corp.	302,000	15,477,500
Mercantile Bankshares Corp.	278,225	10,885,553
National Commerce Bancorp.	472,700	16,662,675
State Street Corp.	185,400	10,787,963
TrustCo Bank Corp., New York	529,157	14,419,528
U.S. Bancorp.	132,500	14,831,719
Washington Mutual, Inc.	233,500	14,900,219
Wilmington Trust Corp.	172,800	10,778,400

		112,090,170

Business Services 8.4%		
Avery Dennison Corp.	345,200	15,447,700
Brady (W.H.) Co.	255,800	7,929,800
Ennis Business Forms, Inc.	498,200	4,639,488
Standard Register Co.	371,400	12,906,150
Wallace Computer Services, Inc.	627,900	24,409,613

		65,332,751

Consumer Products 15.7%		
Alberto-Culver Co., Class A	626,200	16,907,400
Block Drug Co., Inc., Class A	189,553	8,198,210
Dimon, Inc.	715,100	18,771,375
Newell Co.	353,700	15,032,250
Nike, Inc., Class B.	387,500	15,209,375
Philip Morris Cos., Inc.	324,300	14,694,844
Sherwin-Williams Co.	465,000	12,903,750
Stanhome, Inc.	224,000	5,754,000
Universal Corp.	368,500	15,154,563

		122,625,767

Drugs & Health Care 3.3%		
Becton, Dickinson & Co.	314,000	15,700,000
Merck & Co., Inc.	48,300	5,131,875
West Co., Inc.	172,900	5,143,775

		25,975,650

Electronics & Technology 5.7%		
Baldor Electric Co.	308,133	6,682,642
Cohu, Inc.	256,300	7,849,188
General Electric Co.	116,600	8,555,525
Hewlett-Packard Co.	153,900	9,618,750
Hubbell, Inc., Class B	121,700	6,001,331
Rockwell International Corp.	117,700	6,149,825

		44,857,261

Energy 1.2%		
Royal Dutch Petroleum Co., New York Shares, ADR (Netherlands)	174,300	9,444,881

Financial Services 2.1%		
Fannie Mae	292,000	16,662,250

Industrial 23.0%		
Bemis Co., Inc.	161,100	7,098,469
Donaldson Co., Inc.	63,100	2,843,444
Dover Corp.	379,600	13,713,050
Flowserve Corp.	467,600	13,063,575
Graco, Inc.	108,800	4,059,600
Hanna (M.A.) Co.	576,800	14,564,200
Kaydon Corp.	423,200	13,806,900
Industrial (cont.)		
Kimball International, Inc., Class B	746,600	\$ 13,765,438
Leggett & Platt, Inc.	356,600	14,932,625
Meritor Automotive, Inc.	39,233	826,345
Millipore Corp.	405,500	13,761,656
Myers Industries, Inc.	386,560	6,595,680
Nucor Corp.	426,600	20,610,113
Pall Corp.	490,500	10,147,219
Superior Industries International, Inc.	350,900	9,408,506
Superior Surgical Manufacturing Co., Inc.	235,800	3,772,800
Watts Industries, Inc., Class A	581,100	16,452,394

		179,422,014
Insurance - Life 1.2%		
American Heritage Life Investment Corp.	33,100	1,191,600
ReliaStar Financial Corp.	200,000	8,237,500
		9,429,100
Insurance - Property Casualty 12.0%		
Allied Group, Inc.	518,550	14,843,494
American International Group, Inc.	67,500	7,340,625
Chubb Corp.	174,200	13,173,875
Harleysville Group, Inc.	43,800	1,051,200
Mercury General Corp.	352,800	19,492,200
MMI Cos., Inc.	580,500	14,585,063
RLI Corp.	328,125	16,344,726
St. Paul Cos., Inc.	85,300	6,999,930
		93,831,113
Retail 9.3%		
Family Dollar Stores, Inc.	1,139,900	33,413,318
Rite Aid Corp.	212,100	12,447,618
The Limited, Inc.	486,500	12,405,749
Wal-Mart Stores, Inc.	369,700	14,580,043
		72,846,728
Transportation 1.4%		
Circle International Group, Inc.	469,000	10,757,687
		763,275,372
Convertible Preferred Stocks .2%		
American Heritage Life Investment Corp., 8.50% cvt. pfd. (Cost \$1,210,000)	24,200	1,379,400
		764,654,772
fRepurchase Agreement 1.3%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$9,994,807) (Cost \$9,991,318)	\$9,991,318	\$ 9,991,318
BancAmerica Robertson Stephens. (Maturity Value \$309,840)		
Barclays Capital Group, Inc. (Maturity Value \$919,522)		
BT Alex Brown, Inc. (Maturity Value \$859,554)		
Chase Securities, Inc. (Maturity Value \$919,522)		
CIBC Wood Gundy Securities Corp. (Maturity Value \$919,522)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$919,522)		
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$919,522)		
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$919,522)		
Greenwich Capital Markets, Inc. (Maturity Value \$549,715)		
Paribas Corp. (Maturity Value \$919,522)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$919,522)		
UBS Securities, L.L.C. (Maturity Value \$919,522)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$544,151,416) 99.3%		774,646,090
Other Assets, less Liabilities .7%		5,651,694
		\$780,297,784

fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	SHARES	VALUE
Small Cap Fund		
Common Stocks 91.5%		
Commercial Services 4.0%		
aApplied Graphics Technologies, Inc.	43,600	\$ 2,321,700
aLabor Ready, Inc.	81,475	1,568,394
Norrell Corp.	112,500	2,235,938
aRemedyTemp, Inc., Class A	29,500	571,563
aSOS Staffing Services, Inc.	75,500	1,425,063
aThe Marquee Group, Inc.	160,800	603,000
aValassis Communications, Inc.	100,000	3,700,000

Consumer Products Durables 3.9%

aBelmont Homes, Inc.	56,650	435,497
aCannondale Corp.	124,200	2,701,350
Clayton Homes, Inc.	105,650	1,901,700
K-2, Inc.	105,000	2,388,750
Oakwood Homes	80,000	2,655,000
aRockShox, Inc.	56,600	523,550
aSola International, Inc.	24,400	793,000
aSouthern Energy Homes, Inc.	83,700	669,600

		12,068,447

Consumer Products Non-Durables 3.7%

aConsolidated Cigar Holdings, Inc.	115,900	3,194,494
aThe North Face, Inc.	77,600	1,707,200
The Warnaco Group, Inc., Class A	53,960	1,692,995
aTommy Hilfiger Corp.	113,800	3,997,225
aTropical Sportswear International Corp.	38,900	389,000
aVans, Inc.	47,000	710,875

		11,691,789

Consumer Services 4.3%

aAMF Bowling, Inc.	31,500	787,500
aCapStar Hotel Co.	101,200	3,472,425
aDeVry, Inc.	38,900	1,239,938
aPrime Hospitality Corp.	208,000	4,238,000
aSylvan Learning Systems, Inc.	49,400	1,926,600
aVail Resort, Inc.	67,200	1,743,000

		13,407,463

Electronic Technology 8.3%

aAlliant Techsystems, Inc.	26,500	1,477,375
aCoherent, Inc.	89,200	3,133,150
aHarmonic Lightwaves, Inc.	107,800	1,172,325
aItron, Inc.	17,300	311,400
aKomag, Inc.	267,800	3,983,525
aNatural Microsystems Corp.	57,000	2,650,500
aOmtool, Ltd.	77,900	798,475
aRainbow Technologies, Inc.	15,800	458,200
aRead-Rite Corp.	51,500	811,125
aSpectralink Corp.	183,000	514,688
aTekelec.	93,700	2,857,850
aTracor, Inc.	101,800	3,092,175
aTranscrypt International, Inc.	100,600	2,502,425
aUniphase Corp.	54,400	2,250,800

		26,014,013

Financial Services 5.7%

aAffiliated Managers Group, Inc.	35,200	1,020,800
aEspirito Santo Financial Group	106,000	2,153,125
EVEREN Capital Corp.	65,000	3,087,500
Financial Services (cont.)		
Executive Risk, Inc.	48,400	\$ 3,378,925
aLife USA Holding, Inc.	7,200	121,500
aRisk Capital Holdings, Inc.	125,000	2,781,250
Scor (France)	56,600	2,706,568
aSilicon Valley Bancshares	48,700	2,739,375

		17,989,043

Health Care Services 4.5%

aAccess Health, Inc.	78,600	2,308,875
aAdvanced Health Corp.	124,300	1,973,263
aHealthcare Recoveries, Inc.	91,400	2,033,650
aMedaphis Corp.	44,900	291,850
aPediatrics Medical Group, Inc.	9,300	397,575
aPharMerica, Inc.	153,900	1,596,713
aRenal Care Group, Inc.	78,100	2,499,200
aTotal Renal Care Holdings, Inc.	33,333	916,658
aTransition Systems, Inc.	88,700	1,962,488

		13,980,272

Health Technology 4.8%

aDepoTech Corp.	106,000	377,625
aInhale Therapeutic Systems	84,300	2,191,800
Mentor Corp.	110,000	4,015,000
aNeurogen Corp.	64,200	866,700
aOrthologic Corp.	245,000	1,362,813
aPenederm, Inc.	75,700	757,000
aSerologicals Corp.	152,500	3,965,000

aVertex Pharmaceuticals, Inc.	46,700	1,541,100
		15,077,038

Industrial Services 1.1%		
aAmerican Disposal Services, Inc.	49,300	1,799,450
aCatalytica, Inc.	90,133	1,070,329
aaU.S. Liquids, Inc.	19,200	271,200
aWaters Corp.	6,600	248,325
		3,584,379

Non-Energy/Minerals 1.5%		
Carpenter Technology Corp.	51,600	2,480,025
aGibraltar Steel Corp.	116,700	2,304,825
		4,784,850

Oil & Gas 6.4%		
aAbacan Resource Corp.	291,900	456,094
aAbacan Resource Corp. (Canada)	150,000	236,171
aAtwood Oceanic, Inc.	3,400	161,075
aBarrett Resources Corp.	113,200	3,424,300
Devon Energy Corp.	66,400	2,556,400
Lomak Petroleum, Inc.	125,000	2,031,250
aNewfield Exploration Co.	35,800	834,588
aTitan Exploration, Inc.	243,200	2,310,400
aTom Brown, Inc.	104,600	2,013,550
aVarco International, Inc.	275,800	5,912,452
		19,936,280

Process Industries 1.8%		
ChemFirst, Inc.	85,100	\$ 2,404,075
aUCAR International, Inc.	80,500	3,214,969
		5,619,044

Producer Manufacturing 3.6%		
aGentex Corp.	156,400	4,203,250
JLG Industries, Inc.	291,400	4,116,025
Roper Industries, Inc.	107,400	3,034,050
		11,353,325

Real Estate Investment Trusts 5.1%		
Arden Realty Group, Inc.	100,000	3,075,000
Camden Property Trust	60,000	1,860,000
FelCor Suite Hotels, Inc.	97,000	3,443,500
Innkeepers USA Trust	218,900	3,392,950
Omega Healthcare Investors, Inc.	27,400	1,058,325
Storage Trust Realty	60,900	1,602,431
Tower Realty Trust, Inc.	13,600	334,900
Winston Hotels, Inc.	98,000	1,292,375
		16,059,481

Retail 2.1%		
aAnnTaylor Stores Corp.	20,000	267,500
aGuitar Center, Inc.	84,800	1,950,400
Talbots, Inc.	74,700	1,353,938
aWest Marine, Inc.	141,700	3,170,538
		6,742,376

Semiconductors 4.6%		
aAdvanced Energy Industries, Inc.	110,000	1,643,125
aBrooks Automation, Inc.	10,600	194,775
aC-Cube Microsystems, Inc.	71,700	1,169,606
aEtec Systems, Inc.	66,600	3,096,900
aLattice Semiconductor Corp.	46,500	2,202,938
aNecMagic Corp.	99,300	1,266,075
aPMC-Sierra, Inc.	108,000	3,348,000
aPRI Automation, Inc.	14,600	421,575
aTrident Microsystems, Inc.	104,700	948,844
		14,291,838

Technology Services 15.1%		
aActivision, Inc.	125,700	2,246,888
aAffiliated Computer Services, Inc.	174,800	4,599,425
aAspen Technologies, Inc.	8,900	304,825
aCheck Point Software Technologies, Ltd.	50,000	2,037,500a
aClarify, Inc.	129,400	1,504,27a5
aDocumentum, Inc.	19,700	829,863

aElectronic Arts, Inc.	102,200	3,864,438
aEnvoy Corp.	61,500	1,791,188
aH.T.E., Inc.	23,400	485,550
aHarbinger Corp.	66,300	1,864,688
aHNC Software, Inc.	18,500	795,500
aIntegrated Systems, Inc.	125,700	1,728,375
aInternational Network Services	89,900	2,078,938
aIntuit, Inc.	81,100	3,345,375
aMetaCreations Corp.	104,600	1,163,675
aPaymentech, Inc.	92,600	1,365,850
aPhoenix Technologies, Ltd.....	97,000	1,176,125
aRemedy Corp.	73,600	1,545,600
Technology Services (cont.)		
aSapient Corp.	15,000	\$ 918,750
aSterling Commerce, Inc.	32,163	1,236,265
aSynopsys, Inc.	109,000	3,896,750
aThe Vantive Corp.	135,000	3,408,750
Transaction Systems Architects, Inc.	92,000	3,496,000
aTrusted Information Systems, Inc.	144,000	1,440,000
aXcelleNet, Inc.	21,000	275,625

47,400,218

Transportation 3.9%

Air Express International Corp.	90,000	2,745,000
aAtlantic Coast Airlines, Inc.	85,500	2,714,625
C.H. Robinson Worldwide, Inc.	96,100	2,150,238
Circle International Group, Inc.	32,300	740,881
Expeditors International of Washington, Inc.	104,800	4,034,800

12,385,544

Utilities/Communications 7.1%

aArch Communications Group, Inc.	191,700	982,463
aCommNet Cellular, Inc.	46,300	1,646,544
aICG Communications, Inc.	156,000	4,251,000
aMillicom International Cellular, SA	62,400	2,347,800
aPaging Network, Inc.	369,800	3,975,350
aPrimus Telecommunications Group, Inc.	143,000	2,305,875
aRural Cellular Corp., Class A	139,300	1,819,606
aWestern Wireless Corp., Class A	279,200	4,851,100

22,179,738

Total Long Term Investments (Cost \$262,349,184) 286,990,796

PRINCIPAL
AMOUNT

fRepurchase Agreement 9.1%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$28,481,129) (Cost \$28,471,188).....	\$28,471,188	28,471,188

- BancAmerica Robertson Stephens (Maturity Value \$872,599)
- Barclays Capital Group, Inc., (Maturity Value \$2,619,009)
- BT Alex Brown, Inc., (Maturity Value \$2,466,050)
- Chase Securities, Inc., (Maturity Value \$2,619,008)
- CIBC Wood Gundy Securities Corp., (Maturity Value \$2,619,008)
- Deutsche Morgan Grenfell/C.J. Lawrence, Inc., (Maturity Value \$2,619,008)
- Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$2,619,008)
- Dresdne Kleinwort Benson, North America, L.L.C., (Maturity Value \$2,619,008)
- Greenwich Capital Markets, Inc., (Maturity Value \$1,571,407)
- Paribas Corp., (Maturity Value \$2,619,008)
- SBC Warburg Dillon Read, Inc. (Maturity Value \$2,619,008)
- UBS Securities, L.L.C., (Maturity Value \$2,619,008)

Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$290,820,372) 100.6%		315,461,984
Other Assets, less Liabilities (.6)%		(2,000,445)

Net Assets 100.0% \$313,461,539
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aNon-income producing.
fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	INDUSTRY	SHARES/ WARRANTS & RIGHTS	VALUE
<S>		<C>	<C>
Templeton Developing Markets Equity Fund			
Common Stocks, Bonds, Warrants and Rights 89.0%			
Argentina 6.4%			
Astra Cia Argentina de Petroleo, SA	Energy Sources	106,180	\$ 185,850
Atanor Cia Nacional Para la Industria Quimica, SA, Class D	Chemicals	530,163	731,764

Banco de Galicia y Buenos Aires, SA, Class B	Banking	399,470	2,557,094
Banco Frances del Rio de la Plata, SA	Banking	1,639	15,213
aBuenos Aires Embotelladora, SA, Sponsored ADR	Beverages & Tobacco	56,200	562
Capex, SA, Class A	Utilities Electrical & Gas	49,555	329,603
Central Costanera, SA, Class B	Utilities Electrical & Gas	13,290	34,561
Juan Minetti, SA	Building Materials & Components	30,350	94,710
aJuan Minetti, SA, cvt., Zero coupon, 12/31/05	Building Materials & Components	6,000	6,001
Molinos Rio de Plata SA, Class B	Food & Household Products	938,438	2,252,679
Nobleza Piccardo Sdad Industrial Comercial y Financiam	Beverages & Tobacco	43,372	195,211
Perez Companc, SA, Class B	Energy Sources	277,707	1,983,205
Quilmes Industrial, SA	Beverages & Tobacco	156,000	2,135,250
Renault Argentina, SA	Automobiles	293,375	410,803
aSevel Argentina, SA, Class C	Automobiles	15,207	13,993
Siderar, Class A	Metals & Mining	7,230	30,733
Sociedad Comercial del Plata Cadelplata Come	Multi-Industry	1,692,360	2,674,437
Transportadora de Gas del Sur, SA, Class B	Energy Sources	102,030	231,652
Transportadora de Gas del Sur, SA, Class B, Sponsored ADR	Energy Sources	3,000	33,562
YPF Sociedad Anonima, Sponsored ADR	Energy Sources	116,934	3,997,681
aZanella Hermanos, SA	Automobiles	2,840	284
			17,914,848
Brazil 11.5%			
Aracruz Celulose, SA, ADR	Forest Products & Paper	114,800	1,650,250
Banco Bradesco, SA	Banking	150,542,291	1,497,262
aBanco Bradesco, SA, BBD, rights	Banking	6,436,461	23,645
aBanco Bradesco, SA, BBD, rights, pfd.	Banking	3,314,124	11,878
Banco Bradesco, SA, pfd.	Banking	77,514,000	763,993
Banco do Brasil, SA	Banking	111,182,976	717,277
Banco do Brasil, SA, pfd.	Banking	97,000,000	717,038
aBanco do Brasil, SA, Series A, warrants	Banking	36,132,595	61,837
aBanco do Brasil, SA, Series B, warrants	Banking	54,198,892	94,698
aBanco do Brasil, SA, Series C, warrants	Banking	79,531,488	155,350
Brasmotor, SA, pfd.	Multi-Industry	4,906,000	483,545
Centrais Eletricas Brasileiras, SA	Utilities Electrical & Gas	99,820,000	4,963,944
Centrais Eletricas Brasileiras, SA, Class B, pfd.	Utilities Electrical & Gas	106,060,000	5,416,800
Companhia Siderurgica Nacional	Metals & Mining	37,703,000	1,047,259
Copene-Petroquimica do Nordeste SA, Class A, pfd.	Chemicals	2,975,700	906,535
Duratex, SA, pfd.	Forest Products & Paper	50,115,800	1,975,803
Investimentos Itau, SA, pfd.	Multi-Industry	1,884,200	1,468,800
aMannesmann, SA	Machinery & Engineering	2,224,000	261,049
aMannesmann, SA, pfd.	Machinery & Engineering	362,700	45,498
Petrobras-Petroleo Brasileiro, SA, pfd.	Energy Sources	25,255,000	5,906,147
Telecomunicacoes Brasileiras-Telebras, SA	Telecommunications	29,560,000	3,006,191
aUniao de Bancos Brasileiros, SA, pfd.	Banking	15,439,000	1,051,354
			32,226,153
China 2.2%			
China Southern Glass Co., Ltd., Class B	Building Materials & Components	2,224,446	625,796
Chiwan Wharf Holdings, Ltd., Class B	Transportation	1,132,000	356,443
aLuoyang Glass Co., Ltd., Class H	Misc Materials & Commodities	2,175,000	196,477
Shandong Huaneng Power Co., Ltd., Sponsored ADR	Utilities Electrical & Gas	96,500	663,437
aShanghona Co., Ltd., Class B	Machinery & Engineering	233,400	20,539
Shanghai Chlor-Alkali Chemical Co., Ltd., Class B	Chemicals	1,332,900	229,259
aShanghai Dazhong Taxi Shareholding Co., Ltd., Class B	Transportation	627,300	469,220
aShanghai Jin Jiang Tower Co., Ltd., Class B	Leisure & Tourism	2,033,600	378,250
aShanghai Lujiaxui Finance & Trade Zn Dev Stock Co., Ltd, Class B	Real Estate	358,900	279,942
Shanghai New Asia Group Co., Ltd., Class B	Food & Household Products	189,940	51,284
Shanghai Petrochemical Co., Ltd., Class H	Chemicals	1,860,000	290,437
aShanghai Refrigerator Compressor Co., Ltd., Class B	Industrial Components	594,480	165,265
aShanghai Shangling Electric Appliance, Class B	Appliances & Household Durables	340,730	70,190
China (cont.)			
Shanghai Tyre & Rubber Co., Ltd., Class B	Industrial Components	1,338,700	\$ 334,675
aShanghai Vacuum Electron Devices Co., Ltd., Class B	Appliances & Household Durables	1,744,361	261,654
Shanghai Yaohua Pilkington Glass, Class B	Building Materials & Components	647,600	89,369
Shenzhen Vanke Co., Ltd., Class B	Real Estate	2,676,061	1,554,042
			6,036,279
Czech Republic 1.8%			
aCEZ	Utilities Electrical & Gas	117,430	3,853,671
Elektrarny Opatovice, AS	Energy Sources	17	1,971
Komerčni Banka, AS	Banking	1,000	37,732
Komerčni Banka, AS, GDR	Banking	4,000	49,000
aSPT Telecom, AS	Telecommunications	4,610	493,176
Tabak, AS	Beverages & Tobacco	130	29,694
aUnipetrol, fgn.	Chemicals	212,938	612,475
			5,077,719
Ghana .4%			
Ashanti Goldfields Co., Ltd., Sponsored GDR	Metals & Mining	165,164	1,238,730
Greece 3.7%			
Alpha Credit Bank	Banking	48,558	2,835,472

Alpha Leasing, SA	Financial Services	30,480	601,332
Delta Dairy, SA	Food & Household Products	71,390	809,850
Ergo Bank, SA	Banking	13,873	717,476
Etba Leasing	Financial Services	40,690	336,873
Hellas Can Sa Packaging Manufacturers	Metals & Mining	36,250	523,604
Hellenic Telecommunications Organizations, SA	Telecommunications	26,360	540,480
Hellenic Telecommunications Organizations, SA, 144A	Telecommunications	124,800	2,558,873
aNational Bank of Greece, SA	Banking	1,184	104,260
Titan Cement, Co., reg.	Building Materials & Components	26,240	1,197,139
			10,225,359

Hong Kong 8.3%			
Cheung Kong Holdings, Ltd.	Real Estate	658,000	4,309,395
Cross Harbour Tunnel Co., Ltd.	Transportation	34,000	57,917
Dairy Farm International Holdings, Ltd.	Merchandising	241,445	260,761
Goldlion Holdings, Ltd.	Textiles & Apparel	130,000	43,199
Great Wall Electronic International, Ltd.	Electrical & Electronics	693,102	53,666
Hang Lung Development	Real Estate	2,366,000	3,328,094
Henderson China Holdings Limited	Real Estate	14,000	11,201
Hong Kong & Shanghai Hotels, Ltd.	Leisure & Tourism	731,000	603,742
Hong Kong Electric Holdings, Ltd.	Utilities Electrical & Gas	334,400	1,270,884
Hopewell Holdings, Ltd.	Construction & Housing	347,000	86,425
HSBC Holdings, Plc.	Banking	192,063	4,734,034
IMC Holdings, Ltd.	Transportation	120,000	30,972
Jardine Matheson Holdings, Ltd.	Multi-Industry	24,618	125,552
Jardine Strategic Holdings, Ltd.	Multi-Industry	98,125	259,050
K Wah International Holdings, Ltd.	Building Materials & Components	1,013,418	177,861
aLai Fung Holdings, Ltd.	Real Estate	14,952	5,161
Lai Sun Development Co., Ltd.	Real Estate	747,600	246,016
Lai Sun Garment International, Ltd.	Multi-Industry	507,000	315,689
aLai Sun Hotels International Ltd., warrants	Leisure & Tourism	111,651	432
Laws International Holdings, Ltd.	Textiles & Apparel	882,000	121,789
New World Development Co., Ltd.	Real Estate	705,127	2,438,689
Semi-Tech (Global) Co., Ltd.	Appliances & Household Durables	1,353,201	221,779
aSemi-Tech (Global) Co., Ltd., warrants	Appliances & Household Durables	31,159	1,126
Sun Hung Kai & Co., Ltd.	Financial Services	1,119,400	193,573
aSun Hung Kai & Co., Ltd, warrants	Financial Services	42,080	1,439
Sun Hung Kai Properties, Ltd.	Real Estate	253,000	1,763,066
Swire Pacific Ltd., Class A	Multi-Industry	210,000	1,151,762
Swire Pacific Ltd., Class B	Multi-Industry	182,000	184,372
Hong Kong (cont.)			
Wheelock & Co. Ltd.	Multi-Industry	673,000	\$ 785,992
Yue Yuen Industrial Holdings	Recreation & Other Consumer Goods	177,200	375,026
			23,158,664

India 3.3%			
aAndhra Valley Power Supply Co., Ltd.	Utilities Electrical & Gas	3,550	7,222
Arvind Mills, Ltd.	Textiles & Apparel	143,000	321,932
aBajaj Auto, Ltd.	Automobiles	6,400	98,776
Bank of Baroda	Banking	95,700	269,767
Bharat Petroleum Corp., Ltd.	Energy Sources	4,800	50,969
Bombay Dyeing & Manufacturing Co., Ltd.	Chemicals	6,700	16,964
BSES, Ltd.	Utilities Electrical & Gas	3,200	13,959
Cochin Refineries, Ltd.	Energy Sources	71,200	308,776
Grasim Industries, Ltd. Ord INR 10	Multi-Industry	48,900	435,360
Great Eastern Shipping Co.	Transportation	297,800	349,459
Gujarat Ambuja Cements, Ltd.	Building Materials & Components	2,200	15,490
Gujarat Industries Power, Ltd.	Energy Equipment & Services	52,100	34,888
Gujarat Narmada Valley Fertilizers Co., Ltd.	Chemicals	7,000	3,973
Hindalco Industries	Metals & Mining	2,375	45,016
aHindustan Organic Chemicals, Ltd.	Chemicals	25,900	9,514
Hindustan Petroleum Corp., Ltd.	Energy Sources	41,400	511,691
India Cements, Ltd.	Building Materials & Components	61,600	105,286
India Cements, Ltd., GDR	Building Materials & Components	3,051	5,797
Indian Aluminium Co., Ltd.	Metals & Mining	47,500	89,365
Indian Petrochemicals Corp., Ltd.	Chemicals	207,200	373,964
Indian Rayon & Industries, Ltd.	Multi-Industry	30,525	144,254
Indian Rayon & Industries, Ltd., GDR	Multi-Industry	10,670	45,345
Indo Gulf Fertilisers & Chemicals Corp., Ltd.	Chemicals	143,300	134,344
Industrial Credit & Investment Corp. of India (ICICI)	Financial Services	190,480	371,728
Industrial Development Bank of India	Banking	166,300	392,417
ITC Bhadrachalam Paperboards, Ltd.	Forest Products & Paper	66,700	59,128
Larsen and Toubro, Ltd.	Multi-Industry	179,250	927,116
Madras Cements	Building Materials & Components	400	46,684
aMahanagar Telephone Nigam, Ltd.	Telecommunications	9,400	61,867
National Aluminium Co., Ltd.	Metals & Mining	598,100	450,101
Oriental Bank of Commerce	Banking	294,800	483,186
Reliance Industries, Ltd.	Chemicals	115,400	487,212
Shipping Corporation of India, Ltd.	Transportation	182,200	209,158
Steel Authority of India, Ltd.	Metals & Mining	483,000	120,134
Steel Authority of India, Ltd, GDR, Reg S	Metals & Mining	25,000	80,000
Sterlite Industries (India), Ltd.	Metals & Mining	9,100	46,080
Tata Chemicals, Ltd.	Chemicals	76,350	290,208

Tata Engineering & Locomotive Co. Telco	Machinery & Engineering	188,500	1,424,570
Tata Hydro-Electric Power, Co.	Utilities Electrical & Gas	20,000	38,138
Tata Iron & Steel Co., Ltd.	Metals & Mining	97,450	333,741
Thermax, Ltd.	Energy Equipment & Services	3,200	14,204
Wockhardt	Health & Personal Care	1,800	8,483

			9,236,266

Indonesia 2.2%			
Asia Pulp & Paper Co., Ltd., Sponsored ADR	Forest Products & Paper	49,500	498,094
PT Bank Dagang Nasional Indonesia, fgn.	Banking	1,771,000	112,700
aPT Bank Dagang Nasional Indonesia, warrants	Banking	253,000	2,346
PT Bank Danamon, fgn.	Banking	1,098,000	69,873
aPT Bank International Indonesia, fgn.	Banking	600,000	35,455
PT Bank PDFCI, fgn.	Banking	570,500	181,523
PT Barito Pacific Timber, fgn.	Forest Products & Paper	2,659,000	761,441
PT BBL Dharmala Finance, fgn.	Financial Services	150,000	43,636
PT BDNI Capital Corp., fgn.	Financial Services	411,000	67,255
PT Charoen Pokphand Indonesia	Food & Household Products	2,493,750	136,023
PT Ciputra Dev.	Real Estate	800,000	36,364
PT Dharmala Intiland, fgn.	Real Estate	372,400	86,329
Indonesia (cont.)			
PT Gadjah Tunggal, TBK, fgn.	Automobiles	6,732,000	\$ 642,600
PT Hanjaya Mandala Sampoerna	Beverages & Tobacco	121,000	91,300
PT Indah Kiat Pulp & Paper Corp., fgn.	Forest Products & Paper	1,317,500	233,557
aPT Indah Kiat Pulp & Paper Corp., rights	Forest Products & Paper	114,400	3,120
PT Indocement Tunggul Prakar	Building Materials & Components	1,150,500	376,527
PT Indofoods Sukses Makmur	Food & Household Products	230,520	75,443
PT Indosat, fgn.	Telecommunications	59,000	109,418
PT Inter-Pacific Bank, fgn.	Banking	12,000	3,382
PT Jakarta International Hotel & Development	Real Estate	481,500	94,111
PT Japfa Comfeed Indonesia	Food & Household Products	337,500	27,614
PT Kalbe Farma	Health & Personal Care	84,500	14,980
PT Modern Photo Film Co.	Multi-Industry	218,000	63,418
PT Multibreeder Adirama Indonesia TBK	Food & Household Products	441,750	14,056
PT Pabrik Kertas Tjiwi Kimia	Forest Products & Paper	2,009,926	493,345
aPT Pabrik Kertas Tjiwi Kimia, warrants	Forest Products & Paper	169,155	9,842
PT Pakuwon Jati	Real Estate	383,500	31,377
PT Semen Cibinong, loc.	Building Materials & Components	746,500	33,932
PT Semen Gresik	Building Materials & Components	318,500	186,757
PT Sinar Mas Agro Resources & Technology Corp.	Food & Household Products	745,800	64,410
PT Sinar Mas Multi Artha, fgn.	Financial Services	3,099,250	380,363
aPT Sinar Mas Multi Artha, fgn., warrants	Financial Services	232,440	2,958
PT Sumalindo Lestari Jaya TBK	Forest Products & Paper	349,000	49,177
PT Summarecon Agung	Real Estate	678,069	43,150
PT Tambang Timah, fgn.	Metals & Mining	869,000	932,200
PT Tempo Scan Pacific	Health & Personal Care	185,000	14,295
PT Ultra Jaya Milk	Food & Household Products	338,500	61,545
PT Unggul Indah Corp.	Chemicals	136,400	32,860
PT United Tractors	Machinery & Engineering	356,000	42,073

			6,158,849

Israel 1.1%			
Bank Hapoalim BM	Banking	329,883	791,093
Clal Industries, Ltd.	Multi-Industry	225,232	1,266,027
Discount Investment Corp.	Multi-Industry	17,970	502,001
First International Bank of Israel	Banking	248	182,145
Koor Industries, Ltd.	Multi-Industry	2,966	328,411

			3,069,677

Jordan .1%			
aJordan Cement Factories, Ltd.	Building Materials & Components	36,000	153,289

Malaysia 1.8%			
Berjaya Singer, Bhd.	Appliances & Household Durables	418,000	133,261
Berjaya Singer, Bhd, fgn.	Appliances & Household Durables	89,000	28,374
Boustead Holdings, Bhd., fgn.	Food & Household Products	314,000	259,951
aEdaran Otomobil Nasional, Bhd.	Automobiles	1,000	2,044
Federal Flour Mills, Bhd.	Food & Household Products	103,000	82,093
Genting, Bhd.	Leisure & Tourism	219,400	549,981
Hong Leong Industries, Bhd.	Multi-Industry	313,200	318,877
aHong Leong Industries, Bhd., fgn., warrants	Multi-Industry	38,000	3,517
Hong Leong Properties, Bhd., fgn.	Real Estate	233,000	42,532
Island & Peninsula, Bhd., fgn.	Real Estate	413,000	276,077
Kian Joo Can Factory, Bhd.	Industrial Components	9,000	8,006
Leader Universal Holdings, Bhd.	Industrial Components	880,000	271,500
Malaysian Airline System, Bhd.	Transportation	113,000	90,644
Malaysian International Shipping, Bhd., fgn.	Transportation	256,666	376,140
MBF Capital, Bhd.	Financial Services	517,000	120,294
MBF Capital, Bhd., fgn.	Financial Services	200,000	46,536
Oriental Holdings, Bhd.	Automobiles	3,000	3,671
aPerlis Plantations Oil Palms, Bhd.	Multi-Industry	625	482
Perlis Plantations Oil Palms, Bhd., fgn.	Multi-Industry	237,500	335,840
Perusahaan Otomobil Nasional, Bhd., fgn.	Automobiles	213,000	208,099

Public Bank, Bhd.	Banking	166,000	51,642
Malaysia (cont.)			
iRenong, 4.00%, conv., 5/22/01	Multi-Industry	26,800 MYR	\$ 2,825
aRenong, Bhd.....	Multi-Industry	1,833,000	848,284
aRenong, Bhd., warrants	Multi-Industry	16,750	2,153
Resorts World, Bhd.	Leisure & Tourism	467,000	786,438
Shangri-La Hotels (Malaysia), Bhd.	Leisure & Tourism	726,000	197,856
Shangri-La Hotels (Malaysia), Bhd., fgn.	Leisure & Tourism	237,000	64,589

			5,111,706

Mexico 16.1%			
aCemex SA, Class B	Building Materials & Components	1,846,000	9,858,447
aCifra SA de CV.....	Merchandising	160,640	396,101
Cifra SA de CV, Series C	Merchandising	3,087,085	6,923,516
Coca Cola Femsa, SA, Sponsored ADR	Beverages & Tobacco	23,400	1,357,200
Cydea, SA de CV	Chemicals	97,938	273,044
DESC, SA, Class B	Multi-Industry	98,034	936,549
DESC, SA, Class C	Multi-Industry	12,515	117,854
Fomento Economico Mexicano, SA de CV, Class B	Beverages & Tobacco	159,000	1,270,739
aGrupo Financiero Banamex Accival, SA, Class B	Banking	766,000	2,292,163
aGrupo Financiero Banamex Accival, SA, Class L	Banking	1,106,137	2,850,833
Grupo Financiero Bancomer, SA de CV, Class B	Banking	4,238,000	2,730,636
aGrupo Financiero Bancomer, SA de CV, Class L	Banking	2,064,259	821,048
aGrupo Financiero Serfin, SA de CV, Class B	Banking	2,613,816	634,791
Telefonos de Mexico SA, Class L, Sponsored ADR	Telecommunications	205,000	11,492,812
Vitro, SA	Food & Household Products	729,849	3,214,935

			45,170,668

Peru .7%			
Telefonica Del Peru, SA, Class B, ADR	Telecommunications	85,700	1,997,881

Philippines .3%			
aA Soriano Corp.	Multi-Industry	2,375,000	92,654
aBelle Corp.....	Real Estate	36,000	1,387
Filinvest Development Corp.	Real Estate	2,381,000	199,886
aKeppel Philippine Holdings Inc., Class B	Machinery & Engineering	690,000	41,570
Metro Pacific Corp.	Multi-Industry	30,000	830
aPhilex Mining Corp., Class B	Metals & Mining	5,146,500	127,074
Philippine Commercial International Bank Inc.	Banking	30,000	85,185
aPhilippine National Bank	Banking	24,970	54,872
RFM Corp.	Food & Household Products	405,000	66,000
RFM Corp., 10.00%, cvt., pfd.	Food & Household Products	79,090	9,139
aSoutheast Asia Cement Holdings Inc.	Building Materials & Components	10,000,000	130,864

			809,461

Poland 1.0%			
Bank Przemyslowo-Handlowy, SA	Banking	13,638	708,015
Big Bank Gdanski, SA, Class G	Banking	1,067,350	1,044,640
aBig Bank Gdanski, SA, GDR	Banking	15,333	233,833
aImpexmetal, SA, Class A	Metals & Mining	7,000	56,000
Mostostal Export, SA	Construction & Housing	17,032	43,003
aPolifarb Cieszyn Wroclaw, SA	Chemicals	13,013	61,650
aPolifarb Cieszyn Wroclaw, SA, Class D	Chemicals	5,136	20,544
aRaciborska Fabryka Kotlow, SA	Energy Equipment & Services	10,000	26,667
aRolimpex, SA	Wholesale & International Trade	53,051	120,399
Warta, SA	Insurance	25,000	297,163
Wielkopolski Bank Kredytowy, SA	Banking	14,742	74,024
Zaklady Cementowo Wapiennicze Gorazdze Chorula	Building Materials & Components	8,385	206,949

			2,892,887

Portugal 3.5%			
Banco Comercial Portugues, SA	Banking	277,594	5,677,065
Banco Espirito Santo e Comercial de Lisboa	Banking	110,880	3,299,591
Banco Totta & Acores, SA	Banking	9,074	178,177
Espirito Santo Financial Holding, SA, ADR	Banking	6,740	136,906
Portugal (cont.)			
aPortucel Industrial Empresa Product de Celulose, SA	Forest Products & Paper	62,900	\$ 383,791
Sociedade Portuguesa de Celulose, SA	Forest Products & Paper	5,110	144,374

			9,819,904

Singapore 3.2%			
Acer Computer International, Ltd.	Electrical & Electronics	293,000	269,560
aAcer Computer International, Ltd., warrants	Electrical & Electronics	22,000	2,530
Acma, Ltd.	Electrical & Electronics	87,000	59,875
Acma, Ltd., fgn.....	Electrical & Electronics	184,000	126,633
aAcma, Ltd., fgn., warrants	Electrical & Electronics	46,000	3,139
British American Tobacco, Ltd.	Beverages & Tobacco	18,000	53,984
Cycle & Carriage, Ltd.	Wholesale & International Trade	108,000	445,328
First Capital Corp., Ltd.	Real Estate	297,000	274,886
First Capital Corp., Ltd., fgn.	Real Estate	351,000	324,865
Fraser and Neave, Ltd., fgn.	Beverages & Tobacco	30,000	129,932

GP Batteries International, Ltd.	Electrical & Electronics	71,000		184,503
aGP Batteries International, Ltd., warrants	Electrical & Electronics	18,000		14,737
Hai Sun Hup Group, Ltd.	Transportation	1,698,000		685,043
aHai Sun Hup Group, Ltd., warrants	Transportation	391,200		31,333
Hinds Hotels International, Ltd.	Leisure & Tourism	167,000		143,667
Hinds Hotels International, Ltd., fgn.	Leisure & Tourism	177,000		152,269
Hour Glass, Ltd.	Merchandising	100,000		38,564
aInchcape, Bhd., fgn.	Wholesale & International Trade	377,000		579,312
Inchcape Marketing Services, fgn.	Broadcasting & Publishing	377,000		111,836
Isetan (Singapore), Ltd., fgn.	Merchandising	75,500		112,880
Jurong Shipyard, Ltd., fgn.	Machinery & Engineering	227,000		1,077,425
Keppel Corp., Ltd.	Transportation	110,000		315,871
MCL Land, Ltd.	Real Estate	585,000		338,401
Metro Holdings, Ltd., fgn.	Wholesale & International Trade	100,000		123,999
Natsteel, Ltd.	Metals & Mining	78,000		105,512
Natsteel, Ltd., fgn.	Metals & Mining	476,000		643,892
Neptune Orient Lines, Ltd.	Transportation	3,000		1,184
Osprey Maritime, Ltd.	Transportation	367,000		293,948
aOsprey Maritime, Ltd., conv., pfd.	Transportation	96,120		43,911
Overseas Union Enterprise, Ltd.	Leisure & Tourism	131,000		313,996
Robinson & Co., Ltd.	Merchandising	19,200		68,348
Sembawang Corp., Ltd.	Multi-Industry	429,000		916,286
United Industrial Corporation Ltd.	Real Estate	164,000		64,218
United Industrial Corporation Ltd., fgn.	Real Estate	1,779,000		696,612
Van Der Horst, Ltd.	Machinery & Engineering	198,000		75,770
WBL Corp., Ltd.	Multi-Industry	108,000		99,958

				8,924,207

Slovak Republic .5%				
Nafta Gbely, AS.....	Utilities Electrical & Gas	7,600		268,987
Slovnaft, AS.....	Chemicals	28,010		748,634
Vychodoslovenske Zeleziarne, AS	Metals & Mining	20,000		392,460

				1,410,081

South Africa 3.6%				
Aeci, Ltd.	Chemicals	22,000		68,715
Alpha, Ltd.	Building Materials & Components	14,000		155,348
Anglo American Industrial Corp., Ltd.	Multi-Industry	30,455		738,461
Anglovaal Industried, Ltd.	Multi-Industry	94,715		175,164
Bonnita Holdings, Ltd.	Food & Household Products	80,000		20,549
BTR Dunlop, Ltd.	Industrial Components	656,000		202,199
CG Smith, Ltd.	Multi-Industry	73,000		300,010
Del Monte Royal Foods, Ltd.	Food & Household Products	1,762,900		1,159,207
Edgars Stores, Ltd.....	Textiles & Apparel	11,203		191,071
Engen, Ltd.	Energy Sources	361,029		1,836,118
First National Bank Holdings, Ltd.	Banking	24,600		218,627
Foodcorp, Ltd.	Food & Household Products	10,722		55,081
South Africa (cont.)				
Kersaf Investments, Ltd.	Leisure & Tourism	101,800		\$ 533,422
Malbak, Ltd.	Multi-Industry	31,575		30,819
McCarthy Retail, Ltd.	Appliances & Household Durables	74,266		152,607
iMcCarthy Retail, Ltd., cvt., zero coupon 9/30/03	Appliances & Household Durables	17,000	ZAR	33,186
Palabora Mining Co., Ltd.	Metals & Mining	107,001		1,097,173
aRainbow Chicken, Ltd.	Food & Household Products	319,985		13,808
Rembrandt Group, Ltd.	Multi-Industry	9,970		72,729
Reunert, Ltd.	Electrical & Electronics	276,500		448,854
Sappi, Ltd.	Forest Products & Paper	128,351		646,173
South African Breweries, Ltd.	Beverages & Tobacco	20,828		513,585
South African Iron & Steel Industrial Corp., Ltd.	Metals & Mining	2,534,412		749,934
Sun International (South Africa), Ltd.	Leisure & Tourism	1,066,585		438,338
Toyota South Africa Limited	Automobiles	22,000		114,148
Voltex Holdings, Ltd.	Electrical & Electronics	153,907		79,065

				10,044,391

South Korea 1.1%				
Asia Cement Co., Ltd.	Building Materials & Components	16,140		77,605
Boram Bank Co., Ltd.	Banking	101,230		246,655
BYC Co., Ltd.	Textiles & Apparel	2,760		121,310
Central Banking Corp.	Financial Services	27,375		13,243
Cho Hung Bank Co., Ltd.	Banking	100,000		204,425
Cho Hung Bank Co., Ltd., GDR	Banking	54,000		102,600
Dae Duck Electronics Co., Ltd.	Electrical & Electronics	820		23,052
Daegu Bank Co., Ltd.	Banking	110,168		248,284
Daewoo Electronics, Co.	Electrical & Electronics	40,000		105,841
Daewoo Electric Components Co., Ltd.	Electronic Components & Instruments	9,000		18,982
aDongbu Steel Co., Ltd., fgn.	Metals & Mining	7,000		19,658
Dongkuk Steel Mill Co., Ltd.	Metals & Mining	21,000		83,071
Hae In Corp., Ltd.	Merchandising	1,000		18,555
Hana Bank	Banking	9,008		50,115
Hana Bank, GDR.....	Banking	84,572		496,863
Hankook Cosmetics Co., Ltd.	Health & Personal Care	3,950		15,905
aHotel Shilla, Co.	Leisure & Tourism	9,200		19,350
aKorea Express Co., Ltd.	Transportation	9,000		35,310

Kyong Nam Bank.....	Banking	59,410	131,410
LG Electronics, Inc.....	Electrical & Electronics	27,000	204,690
LG Industrial Systems, Ltd.	Electrical & Electronics	16,000	62,773
Moon Bae Steel Co., Ltd.	Metals & Mining	1,000	12,920
Saehan Precision Co., Ltd.	Electrical & Electronics	4,111	32,136
Samsung Display Devices (L), Ltd.	Electrical & Electronics	9,130	171,558
aSamsung Heavy Industries Co., Ltd.	Machinery & Engineering	44,000	97,605
Shin Poong Paper Manufacturing Co., Ltd.	Forest Products & Paper	2,720	15,245
Ssangyong Oil Refining Co., Ltd.	Energy Equipment & Services	71,640	303,044
Tong Yang Merchant Bank	Financial Services	74,096	146,443

3,078,648

Sri Lanka .2%

Associated Motorways, Ltd.	Automobiles	7,960	5,156
National Development Bank of Sri Lanka	Banking	130,000	483,684

488,840

Thailand 5.1%

Advanced Info. Service, Ltd., fgn.	Telecommunications	87,300	429,038
American Standard Sanitaryware (THB) Public Co., Ltd., fgn.	Building Materials & Components	30,800	151,368
Asia Credit Public Co., Ltd., fgn.	Financial Services	22,900	5,015
Asia Credit Public Co., Ltd., loc.	Financial Services	158,000	34,605
Ayudhya Insurance Public Co., Ltd., fgn.	Insurance	49,100	187,797
Bangkok Bank Public Co., Ltd.	Banking	838,400	1,540,650
Bangkok Insurance	Insurance	37,000	213,462
Bangkok Insurance, fgn.	Insurance	4,900	40,833
Bank of Ayudhya Public Co., Ltd., fgn.	Banking	996,000	415,000

Thailand (cont.)

Banpu Public Co., Ltd.	Energy Sources	27,000	\$ 75,000
Chareon Pokphand Feedmill Public Co., Ltd., fgn.	Food & Household Products	335,700	832,077
Charoen Pokphand Feedmill Public Co., Ltd.	Food & Household Products	153,300	186,712
Dusit Thani Public Company, Ltd., fgn.	Leisure & Tourism	75,500	57,270
First Bangkok City Bank Public Co., Ltd., fgn.	Banking	659,000	132,363
First Bangkok City Bank Public Co., Ltd., loc.	Banking	137,115	27,833
aFirst Bangkok City Bank Public Co., Ltd., SEC	Banking	262,885	53,363
Hana Microelectronics Co., Ltd., fgn.	Electrical & Electronics	174,618	400,166
Hana Microelectronics Co., Ltd., loc.	Electrical & Electronics	39,891	80,549
aHana Microelectronics Co., Ltd., SEC	Electronic Components & Instruments	39,891	80,549
Hua Thai Manufacturing Public Co., Ltd.	Textiles & Apparel	16,000	13,333
Industrial Finance Corp. of Thailand, fgn.	Banking	787,881	124,579
Industrial Finance Corp. of Thailand, loc.	Banking	510,819	70,947
Italian-Thai Development Public Co., Ltd., fgn.	Construction & Housing	109,700	35,160
Jasmine International Public Co., Ltd., fgn.	Telecommunications	1,205,000	257,479
aKarat Sanitaryware Public Co., Ltd., fgn.	Building Materials & Components	119,150	25,459
Kian Gwan (Thailand) Public Co., Ltd., fgn.	Real Estate	50,700	60,125
Land and House Public Co, Ltd., fgn.	Multi-Industry	272,556	55,909
Land and House Public Co., Ltd., loc.	Multi-Industry	346,200	66,577
aLand and House Public Co., Ltd., SEC	Multi-Industry	242,609	47,309
Phatra Thanakit Public Co., Ltd., fgn.	Multi-Industry	485,300	277,388
Phatra Thanakit Public Co., Ltd., loc.	Multi-Industry	596,000	286,538
Regional Container Lines Public Co., Ltd., fgn.	Transportation	291,400	236,607
Regional Container Lines Public Co., Ltd.	Transportation	20,600	16,727
aRoyal Ceramic Industry Public Co., Ltd., fgn.	Building Materials & Components	256,800	8,231
Saha Pathanapibul Public Co., Ltd., fgn.	Food & Household Products	80,700	77,596
Saha Union Public Co., Ltd., fgn.	Multi-Industry	390,000	268,750
Saha Union Public Co., Ltd., loc.	Multi-Industry	284,800	168,872
Sanyo Universal Electric Public Co., Ltd., fgn.	Appliances & Household Durables	47,800	10,469
Serm Suk Public Co., Ltd., fgn.	Food & Household Products	700	4,936
Serm Suk Public Co., Ltd., loc.	Food & Household Products	46,300	257,222
Siam Cement Public Co., Ltd., fgn.	Building Materials & Components	70,100	569,188
Siam Cement Public Co., Ltd., loc.	Building Materials & Components	63,600	326,154
Siam City Bank Public Co., Ltd., fgn.	Banking	1,963,000	136,319
Siam Commercial Bank	Banking	552,333	577,188
Siam Commercial Bank, Ltd., fgn.	Banking	569,800	669,637
aSiam Makro Public Company, Ltd., fgn.	Merchandising	200,000	245,727
aSino-Thai Engineering & Construction Public Co., fgn.	Construction & Housing	118,900	15,244
Thai Airways International Public Co., Ltd., fgn.	Transportation	477,700	546,089
Thai Asahi Glass Public Co., Ltd.	Building Materials & Components	116,410	26,739
Thai Farmers Bank Public Co., Ltd.	Banking	2,153,300	2,760,641
Thai Investments and Securities Ltd.	Financial Services	368,100	117,981
Thai Petrochemical Industry Public Co., Ltd., fgn.	Chemicals	1,469,520	144,440
Thai Plastic and Chemical Co., Ltd., fgn.	Chemicals	2,200	4,266
Thai Rayon Public Co., Ltd., fgn.	Textiles & Apparel	2,525	3,399
Thai Rayon Public Co., Ltd., loc.	Textiles & Apparel	42,775	57,582
aThai Telephone & Telecommunication Public Co., Ltd., fgn.	Telecommunications	313,100	26,761
Thai Wacoal Public Co., Ltd., fgn.	Textiles & Apparel	26,400	50,769
Thai Wah Public Co., Ltd., fgn.	Multi-Industry	8,450	587
Tipco Asphalt Public Co., Ltd., fgn.	Building Materials & Components	112,000	90,940
Total Access Communication Public Co., Ltd.	Telecommunications	272,000	92,480
United Communications Industries, fgn.	Multi-Industry	534,200	222,583
United Motor Works (Siam) Public Co., Ltd.	Machinery & Engineering	4,500	2,236

14,180,963

Turkey 9.6%		
Akbank.....	Banking	103,316,223
Alarko Gayrimenkul Yatirim Ortakigi, AS	Real Estate	626,000
Alarko Sanayii ve Ticaret, SA	Appliances & Household Durables	2,839,999
aAnadolu Anonim Turk Sigorta Sirketi	Insurance	4,705,000
aAnadolu Anonim Turk Sigorta Sirketi, new	Insurance	4,688,000
Turkey (cont.)		
Arcelik, AS	Appliances & Household Durables	5,678,456
Beko Elektronik, AS	Appliances & Household Durables	7,018,150
Borusan, AS	Industrial Components	1,514,000
Cimentas Izmir Cimento Fabrikasi Turk, AS	Building Materials & Components	3,223,070
Cimsa Cimento Sanayi ve Ticaret, AS	Building Materials & Components	2,523,000
Erciyas Biracilik	Food & Household Products	3,392,000
Eregli Demir ve Celik Fabrikalari, AS	Metals & Mining	17,375,000
Izocam Ticaret ve Sanayii, AS, br.	Building Materials & Components	4,477,142
Kartonsan.....	Forest Products & Paper	1,041,000
Koc Holding, AS.....	Multi-Industry	12,375,245
Marshall Boya ve Vernik Sanayii, AS	Industrial Components	1,545,528
aNetas Northern Electric Telekomunic Asyon, AS	Electrical & Electronics	1,325,000
Petkim Petrokimya Holding, AS	Chemicals	280,000
aSabanci Holdings, AS	Multi-Industry	740,000
aSabanci Holdings, AS, ADR	Multi-Industry	300,000
Tat Konserve Sanayii, AS	Food & Household Products	5,244,662
Tofas Turk Otomobil Fabrikasi, AS	Automobiles	15,321,025
Turk Demir Dokum, br.	Appliances & Household Durables	4,645,993
Turkiye Garanti Bankasi, AS	Banking	50,763,330
Vakif Finansal Kiralama, AS.....	Financial Services	5,353,359

		26,906,875

Venezuela 2.1%		
Ceramica Carabobo, CA, Class A	Building Materials & Components	332,440
Ceramica Carabobo, CA, Class A, ADR	Building Materials & Components	272,288
aCorporacion Industrial Carabobo Saca SIC, Class B	Building Materials & Components	1,716,696
Electricidad de Caracas	Utilities Electrical & Gas	1,450,882
aIndustrias Ventane	Utilities Electrical & Gas	240,000
aManufacturera de Aparatos Domesticos, SA	Appliances & Household Durables	10,000
Mavesa, SA, ADR	Food & Household Products	358,000
Siderurgica Venezolana Sivensa Saica Svs., ADR	Metals & Mining	118,560
Siderurgica Venezolana Sivensa Saica Svs., ADR, Class B, new	Metals & Mining	7,968
Venezolana de Cementos-Vencemos, #1	Building Materials & Components	321,767
Venezolana de Cementos-Vencemos, #2	Building Materials & Components	220,161

		5,998,371

Zimbabwe .1%		
Delta Corp.	Multi-Industry	600
TA Holdings	Multi-Industry	25,000
Transarchipel Shipping, Ltd.- TSL	Multi-Industry	587,000
Zimbabwe Sun, Ltd.	Multi-Industry	881,488

		220,422

Total Long Term Investments (Cost \$284,761,895)		251,551,138

dShort Term Investments 9.3%		
U.S. Treasury Bills, 4.89% to 5.18% with maturities to 3/26/98...		26,065,000

(Cost \$25,899,320)		
Total Investments (Cost \$310,661,215) 99.2%		277,455,266
Other Assets, less Liabilities .8%		2,224,785

Net Assets 100.0%		\$279,680,051
		=====

See currency abbreviations on page 147.

aNon-income producing.

dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.

iQuantity shown represents principal amount in currency indicated.

</TABLE>

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

<TABLE>

<CAPTION>

Templeton Global Asset Allocation Fund	COUNTRY	SHARES/ RIGHTS	VALUE
<S>		<C>	<C>

Common Stocks and Rights 52.2%			
Aerospace & Military Technology .1%			
Raytheon Co., Class A	United States	1,915	\$ 94,433

Automobiles .4%			
aGeneral Motors Corp.	United States	2,700	163,688
Volkswagen, AG	Germany	360	201,112

364,800			

Banking 1.9%			
Alpha Credit Bank	Greece	3,832	223,764
Banco Bradesco, SA BBD, rights	Brazil	4,992,350	17,893
Banque Nationale de Paris	France	9,193	488,634
Credit Suisse Group	Switzerland	4,085	631,622
Korea Long Term Credit Bank	South Korea	33,346	204,601
PT Bank Bali, fgn.	Indonesia	247,500	32,625
PT Lippo Bank, fgn.	Indonesia	325,000	35,455
Shinhan Bank	South Korea	32,330	144,102
Thai Farmers Bank Public Co., Ltd., fgn.	Thailand	14,000	26,175

1,804,871			

Building Materials & Components 1.3%			
Gujarat Ambuja Cements, Ltd.	India	22,600	159,122
Gujarat Ambuja Cements, Ltd., GDR	India	14,600	104,390
Suez Cement Co.	Egypt	45,299	918,628

1,182,140			

Business & Public Services 1.5%			
Columbia HCA Healthcare Corp.	United States	13,600	402,900
aHumana, Inc.	United States	18,200	377,650
Lex Service, Plc.	United Kingdom	21,666	165,996
SGS Societe Generale de Surveillance Holdings, SA, Class B	Switzerland	115	220,299
Wheelabrator Technologies, Inc.	United States	17,000	273,063

1,439,908			

Chemicals 1.8%			
aBeijing Yanhua Petrochemical Co., Ltd., ADR	China	69,740	662,530
Imperial Chemical Industries, Plc.	United Kingdom	30,000	463,145
Rhone-Poulenc, SA, Class A	France	9,870	442,129
Shanghai Petrochemical Co., Ltd., Class H	China	834,000	130,228

1,698,032			

Data Processing & Reproduction 2.6%			
a3com Corp.	United States	25,400	887,413
aBay Networks, Inc	United States	33,026	844,227
International Business Machines Corp.	United States	7,000	731,938

2,463,578			

Electrical & Electronics 2.1%			
aDSC Communications Corp.	United States	4,490	107,760
Motorola, Inc.	United States	4,310	245,939
Philips Electronics, NV	Netherlands	11,300	677,671
Tadiran, Ltd., Sponsored ADR	Israel	26,058	921,802

1,953,172			

Energy Equipment & Services .8%			
Sun Co., Inc.	United States	17,500	736,094

Energy Sources .9%			
MOL Magyar Olay - Es Gazipari RT, GDS	Hungary	12,107	294,200
Rao Gazprom, ADR, Reg S	Russia	14,201	340,114
Societe Elf Aquitaine, SA	France	1,805	209,936

844,250			

Financial Services 3.3%			
AXA-UAP, SA	France	14,631	\$ 1,132,119
Banca Fideuram, SpA	Italy	74,700	332,117
Merrill Lynch & Co., Inc.	United States	6,100	444,919
Morgan Stanley, Dean Witter Discover & Co.	United States	20,000	1,182,500

3,091,655			

Food & Household Products 1.3%			
Archer-Daniels Midland Co.	United States	28,140	610,286
aBoston Chicken, Inc.	United States	18,800	121,025
Chareon Pokphand Feedmill Public Co., Ltd., fgn.	Thailand	30,000	74,359
IBP, Inc.	United States	19,500	408,281

			1,213,951

Forest Products & Paper 1.6%			
aAsia Pacific Resources International Holdings, Ltd., Class A	Indonesia	33,775	63,328
Cartiere Burgo, SpA	Italy	34,500	205,693
Enso OY, Class R	Finland	10,000	77,626
Georgia Pacific Corp.	United States	2,500	151,875
aGeorgia-Pacific Timber Group	United States	2,500	56,719
Mo Och Domsjoe, AB, Class B	Sweden	9,575	247,217
aRepap Enterprises, Inc.	Canada	4,876,190	614,194
UPM-Kymmene Corp.	Finland	4,200	84,783
			1,501,435

Health & Personal Care .7%			
aParagon Trade Brands, Inc.	United States	24,800	319,300
aPlaytex Products, Inc.	United States	29,000	297,250
			616,550

Industrial Components 1.0%			
BTR, Plc.	United Kingdom	63,400	194,194
Goodyear Tire & Rubber Co.	United States	3,600	229,050
Madeco Manufacturera de Cobre, SA, ADR	Chile	18,685	284,946
Yamato Kogyo Co., Ltd.	Japan	37,000	222,448
			930,638

Insurance 5.9%			
Ace, Ltd.	Bermuda	8,400	810,600
HIH Winterthur International Holdings, Ltd.	Australia	95,654	205,107
ING Groep, NV	Netherlands	5,097	214,674
Istituto Nazionale Delle Assicurazioni, SpA	Italy	233,000	472,586
National Mutual Asia, Ltd.	Hong Kong	489,000	485,908
Partnerre, Ltd.	Bermuda	17,500	811,563
Scor	France	18,000	860,746
Torchmark Corp.	United States	14,000	588,875
UNUM Corp.	United States	8,000	435,000
Zurich Versicherungsgesellschaft	Switzerland	1,390	661,882
			5,546,941

Machinery & Engineering .1%			
Pacifica Group, Ltd.	Australia	42,439	140,677

Merchandising 3.1%			
aCifra, SA de CV	Mexico	96,200	237,207
Coles Myer, Ltd.	Australia	60,707	291,600
David Jones, Ltd.	Australia	345,909	390,022
Dayton-Hudson Corp.	United States	10,000	675,000
Hudson's Bay Co.	Canada	20,200	450,208

Merchandising (cont.)			
aLojas Americanas, SA, ADR	Brazil	10,000	\$ 46,593
Somerfield, Plc.	United Kingdom	222,600	765,910
			2,856,540

Metals & Mining 2.7%			
AK Steel Holding Corp.	United States	5,720	101,173
aAngang New Steel Co., Ltd., Class H, 144A	China	2,022,000	300,077
Anglo American Platinum Corp., Ltd.	South Africa	402	5,369
British Steel, Plc.	United Kingdom	206,500	446,827
Companhia Siderurgica Nacional, Sponsored ADR	Brazil	7,700	198,756
Companhia Siderurgica Nacional	Brazil	16,300,000	452,757
Elkem, AS	Norway	14,800	196,664
Oregon Steel Mills, Inc.	United States	8,000	170,500
Pohang Iron & Steel Co., Ltd.	South Korea	6,690	180,965
RGC, Ltd.	Australia	10,314	15,730
Usinas Siderurgicas de Minas Gerais, Sponsored ADR	Brazil	28,300	155,650
Vale do Rio Doce, ADR	Brazil	15,100	303,745
			2,528,213

Miscellaneous Materials & Commodities			
Korea Chemical Co., Ltd.	South Korea	1,580	26,287

Multi-Industry 1.8%			
Alfa, SA de CV, Class A	Mexico	127,251	862,478
Harrisons & Crosfield, Plc.	United Kingdom	133,098	306,033
La Cemento Nacional, SA, Sponsored GDR	Ecuador	400	83,200
La Cemento Nacional, SA, Sponsored GDR, 144A	Ecuador	1,400	291,200
Metro Pacific Corp., MDI	Philippines	4,426,706	122,418
			1,665,329

Real Estate 3.1%			
Cheung Kong Holdings, Ltd.	Hong Kong	32,000	209,575
Highwood Properties, Inc.	United States	16,600	617,313
Hon Kwok Land Investment Co., Ltd.	Hong Kong	1,226,456	221,582
Intrawest Corp.	Canada	15,200	265,911
Post Properties, Inc.	United States	7,600	308,750
Summit Properties, Inc.	United States	15,000	316,875
The Rouse Co.	United States	13,500	442,125
Unibail Union du Credit Bail Immobilier	France	2,500	249,647
Weeks Corp.	United States	7,500	240,000

			2,871,778

Recreation & Other Consumer Goods 1.2%			
Nintendo Co., Ltd.	Japan	7,000	691,583
Yue Yuen Industrial Holdings, Ltd.	Hong Kong	190,140	402,413

			1,093,996

Telecommunications 3.6%			
AT&T Corp.	United States	7,000	428,750
British Telecommunications, Plc.	United Kingdom	65,000	512,149
General Motors Corp., Class H	United States	3,100	114,506
Hong Kong Telecommunications, Ltd.	Hong Kong	296,000	609,266
Oy Nokia, AB, Class A	Finland	12,400	866,990
Telecom SA, Sponsored ADR	Argentina	4,000	143,000
Telefonos de Mexico, SA, Class L, Sponsored ADR	Mexico	6,709	376,123
U.S. West Communications Group	United States	6,000	270,750

			3,321,534

Textiles & Apparel .6%			
aFruit of the Loom, Inc., Class A	United States	12,450	\$ 319,031
Yizheng Chemical Fibre Co., Ltd., Class H	China	1,332,000	240,650

			559,681

Transportation 3.2%			
Danzas Holdings, AG	Switzerland	1,445	283,731
Great Eastern Shipping Co., Ltd., GDR 144A	India	86,700	474,683
aLandstar System, Inc.	United States	13,000	342,875
Railtrack Group, Plc., 144A	United Kingdom	84,914	1,354,150
Sea Containers, Ltd., Class A	United Kingdom	7,000	224,000
Tranz Rail Holdings, Ltd., Sponsored ADR	New Zealand	27,180	312,570

			2,992,009

Utilities - Electrical & Gas 5.6%			
BG, Plc.	United Kingdom	35,294	158,825
British Energy, Ltd., fgn.	United Kingdom	66,780	471,062
British Energy, Ltd., fgn., 144A	United Kingdom	47,700	336,473
Cia Energetica de Minas Gerais, ADR	Brazil	7,500	325,859
Ennergy Corp.	United States	30,200	904,113
Evn Energie-Versorgung Niederoesterreich AG	Austria	3,000	394,252
Gas y Electricidad, SA	Spain	4,300	310,469
Hong Kong Electric Holdings, Ltd.	Hong Kong	130,000	494,064
Iberdrola, SA	Spain	20,500	269,790
Korea Electric Power Corp.	South Korea	39,730	366,829
aMosenergo, ADR	Russia	7,099	269,762
Mosenergo, ADR, 144A	Russia	10,000	380,000
National Grid Holdings, Plc.	United Kingdom	93,800	447,140
Texas Utilities Co.	United States	1,400	58,188

			5,186,826

Total Common Stocks and Rights (Cost \$42,573,074)			48,725,318

Preferred Stocks 4.0%			
aBanco Bradesco, SA, pfd.	Brazil	116,766,000	1,150,868
Cia de Inversiones en Telecomunicaciones, SA, cvt., pfd., 7.00%, 3/03/98	Argentina	4,700	329,000
Cia de Inversiones en Telecomunicaciones, SA, cvt., pfd., 144A, 7.00%, 3/03/98 .	Argentina	7,800	546,000
Cia Vale do Rio Doce, pfd.	Brazil	13,400	269,549
Coteminas Cia Tecidos Norte de Minas, pfd	Brazil	599,000	214,686
aEmpresa Nacional de Comercio Redito Participacao, pfd.	Brazil	275,000	205
aIntrawest Corp., non-resort pfd.	Canada	13,679	27,280
aLojas Americanas, SA, pfd.	Brazil	4,556,073	21,228
Petrobras Distribuidora, SA, pfd.	Brazil	19,319,300	337,553
Petrobras-Petroleo Brasileiro, SA, pfd.	Brazil	3,401,000	795,360

Total Preferred Stocks (Cost \$3,419,821)			3,691,729

			PRINCIPAL AMOUNT*	
Bonds 31.0%				
<S>		<C>		<C>
Bepensa, SA, 144A, 9.75%, 9/30/04	Mexico	110,000		106,975
Bridas Corp., Yankee, 12.50%, 11/18/99	Argentina	100,000		107,750
Buoni Poliennali Del Tes, 10.00%, 8/01/03	Italy	855,000,000	ITL	589,655
Cemex, SA, 144A, 10.75%, 7/15/00	Mexico	200,000		211,000
Centrais Electricas Brasileiras, SA, senior unsubordinated notes, 144A, 10.00%, 10/30/98	Brazil	150,000		150,000
Federal Republic of Germany, 6.875%, 2/24/99	Germany	310,000	DEM	177,884
Bundesobligation, bonds, Series 110, 5.375%, 2/22/99	Germany	815,000	DEM	460,323
Unity, bonds, 8.75%, 8/20/01	Germany	155,000	DEM	97,773
Government of Australia, bonds, Series 1002, 10.00%, 10/15/02	Australia	1,064,000	AUD	\$ 816,250
Government of Canada, deb., Series A32, 10.50%, 7/01/00	Canada	917,000	CAD	718,363
Series A37, 10.50%, 3/01/01	Canada	182,000	CAD	146,098
Series J25, 10.00%, 5/01/02	Canada	1,025,000	AUD	842,041
Government of Italy, 10.50%, 7/15/00	Italy	1,360,000,000	ITL	866,664
cvt. bonds, 5.00%, 6/28/01	Italy	490,000	ITL	599,638
Government of Netherlands, Series 1 & 2, 7.00%, 3/15/99	Netherlands	500,000	NLG	254,605
Government of New Zealand, 6.50%, 2/15/00	New Zealand	610,000	NZD	346,810
HIH Winterthur International Holdings, Ltd., 8.00% 11/02/01	Australia	7,971	AUD	28,131
Industrias Metalurgicas Pescarmona, 144A, 11.75%, 3/27/98	Argentina	100,000		100,793
Kingdom of Denmark, bonds, 8.00%, 5/15/03	Denmark	3,065,000	DKK	505,070
Kingdom of Spain, 12.25%, 3/25/00	Spain	187,750,000	ESP	1,425,594
Kingdom of Sweden, bonds, Series 1033, 10.25%, 5/05/03	Sweden	7,000,000	SEK	1,062,382
deb., Series 1030, 13.00%, 6/15/01	Sweden	1,200,000	SEK	185,556
Minfin of Russia, 144A, 10.00%, 6/26/07	Russia	500,000		464,125
PT Indah Kiat Financial Mauritius, 10.00%, 7/01/07	Indonesia	300,000		247,500
Pera Financial Services, 9.375%, 10/15/02	Turkey	120,000		116,325
Phillipine Long Distance Telephone Co., 9.25%, 6/30/06	Philippines	270,000		254,475
Poland Communications, Inc., 9.875%, 11/01/03	Poland	400,000		391,200
Protexa Construcciones, SA de CV, 144A, 12.125%, 7/24/02	Mexico	100,000		94,000
Republic of Argentina, 8.75%, 5/09/02	Argentina	100,000		95,200
9.25%, 2/23/01	Argentina	1,025,000		1,041,656
9.75%, 9/19/27	Argentina	540,000		518,940
notes, Series REGS, 11.75%, 2/12/07	Argentina	100,000	ARS	94,518
unsecured notes, 11.375%, 1/30/17	Argentina	200,000		219,000
unsecured notes, Series BGL4, 11.00%, 10/09/06	Argentina	75,000		80,813
Republic of Brazil, bonds, 10.125%, 5/15/27	Brazil	725,000		681,138
cvt., Series L, FRN, 6.9375%, 4/15/12	Brazil	775,000		589,969
notes, 8.875%, 11/05/01	Brazil	100,000		100,130
Series C, 8.00%, 4/15/14	Brazil	114,026		90,428
Republic of Ecuador, 144A, 11.25%, 4/25/02	Ecuador	275,000		287,733
11.25%, 4/25/02	Ecuador	450,000		470,835
FRN, 6.4375%, 2/28/25	Ecuador	110,000		83,193
Republic of Germany, Bundesobligation, bonds, Series 118, 5.25%, 2/21/01	Germany	2,100,000	DEM	1,192,062
Republic Of Turkey, 144A, 10.00%, 9/19/97	Turkey	520,000		529,100
Republic of Venezuela, 144A, 9.125%, 6/18/07	Venezuela	100,000		98,250
9.25%, 9/15/27	Venezuela	1,463,000		1,314,871
senior unsubordinated deb., 9.125%, 6/18/07	Venezuela	600,000		589,500
Sei Holdings IX, Inc., 144A, 11.00%, 11/30/00	Trinidad and Tobago	170,000		176,800
United Kingdom, 8.00%, 12/07/00	United Kingdom	490,000	GBP	831,414
U.S. Treasury Bond, 6.375%, 8/15/02	United States	405,000		415,632
U.S. Treasury Notes, 7.875%, 11/15/99	United States	505,000		524,565
8.50%, 2/15/00	United States	880,000		929,225
6.125%, 7/31/00	United States	371,000		374,826
6.25%, 8/31/00	United States	1,010,000		1,023,572
6.625%, 4/30/02	United States	1,515,000		1,566,133
7.25%, 8/15/04	United States	596,000		644,426
6.125%, 8/15/07	United States	878,000		902,695
6.125%, 11/15/27	United States	359,000		368,985
United Mexican States, bonds, 9.875%, 1/15/07	Mexico	155,000		\$ 162,169
bonds, 11.50%, 5/15/26	Mexico	825,000		978,656
notes, 9.75%, 2/06/01	Mexico	620,000		646,350
Total Bonds (Cost \$29,361,943)				28,989,764
dShort Term Investments .9%				
U.S. Treasury Bills 5.16%, 1/22/98 (Cost \$854,461)	United States	865,000		862,597
Total Investments before Repurchase Agreements (\$76,209,299)				82,269,408
gRepurchase Agreements 11.2%				
Bank of America, 6.40%, 1/02/98 (Maturity Value \$3,351,255)				

Collateralized by U.S. Treasury Notes & Bonds	United States	3,530,000	3,530,000
Lehman Brothers, Inc., 6.30%, 1/02/98 (Maturity Value \$3,421,197)			
Collateralized by U.S. Treasury Notes & Bonds	United States	3,420,000	3,420,000
UBS Securities, Inc., 6.45%, 1/02/98 (Maturity Value \$3,528,264)			
Collateralized by U.S. Treasury Notes & Bonds	United States	3,527,000	3,527,000
Total Repurchase Agreements (Cost \$10,477,000)			10,477,000
Total Investments (Cost \$86,686,299) 99.3%			92,746,408
Other Assets, less Liabilities .6%			555,800
Net Equity in Forward Contracts .1%			99,614
Net Assets 100.0%			\$93,401,822

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.

aNon-income producing.

dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.

gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ RIGHTS	VALUE
Templeton Global Growth Fund Common Stocks and Rights 81.4%			
<S>		<C>	<C>
Aerospace & Military Technology .8%			
aBanner Aerospace, Inc.	United States	339,000	\$ 3,750,187
Raytheon Co., Class A	United States	40,944	2,019,051
			5,769,238
Appliances & Household Durables .3%			
Fisher & Paykel Industries, Ltd.	New Zealand	594,959	1,900,044
Automobiles 2.5%			
Fiat, SpA.....	Italy	1,919,720	5,568,165
Ford Motor Co.	United States	90,000	4,381,875
General Motors Corp.	United States	60,000	3,637,500
Volkswagen, AG	Germany	6,300	3,519,455
Volvo, AB, Class B	Sweden	68,000	1,824,204
			18,931,199
Banking 5.0%			
Alpha Credit Bank	Greece	45,333	2,647,124
Alpha Credit Bank, 144A	Greece	7,333	428,219
aBanco Bradesco, SA, pfd., rights	Brazil	19,303,961	69,187
Banco Santander, SA	Spain	225,000	7,517,230
Banque Nationale de Paris	France	129,225	6,868,668
Credit Commercial de France	France	89,625	6,142,778
Credit Suisse Group, reg.	Switzerland	5,475	846,543
Guoco Group, Ltd.	Hong Kong	1,633,000	3,993,464
HSBC Holdings, Plc.	Hong Kong	2,831	69,779
Komerčni Banka, AS, GDR,	Czech Republic	171,000	2,094,750
Kookmin Bank	South Korea	175,926	1,015,424
Shinhan Bank	South Korea	123,920	552,340
Singapore Finance, Ltd.	Singapore	1,141,000	778,493
aUnibanco Uniao de Bancos Brasileiros, SA, GDR	Brazil	149,000	4,795,938
			37,819,937
Broadcasting & Publishing .9%			
Cordiant, Plc.	United Kingdom	727,500	1,302,350
Houghton Mifflin Co.	United States	105,600	4,052,400
aSaatchi & Saatchi, Plc.	United Kingdom	727,500	1,314,298
			6,669,048
Building Materials & Components 1.0%			
Caradon, Plc.	United Kingdom	1,108,600	3,268,192
Keumkang, Ltd.	South Korea	11,227	102,997
Owens Corning	United States	100,600	3,432,975
Siam City Cement Public Co., Ltd., fgn.	Thailand	771,063	823,785
			7,627,949
Business & Public Services 2.4%			
aHumana, Inc.	United States	250,000	5,187,500
Lex Service, Plc.	United Kingdom	466,666	3,575,412
SGS Societe Generale de Surveillance Holdings, Class B	Switzerland	3,000	5,746,930
Wheelabrator Technologies, Inc.	United States	240,000	3,855,000

			18,364,842
Chemicals 1.2%			
Courtaulds, Plc.	United Kingdom	1,554,900	7,597,273
European Vinyls Corporation Evc International, NV	Netherlands	56,500	1,253,915
			8,851,188
Construction & Housing .2%			
Daito Trust Construction Co.	Japan	274,700	1,676,770
Data Processing & Reproduction 1.6%			
aBay Networks, Inc.	United States	230,000	\$ 5,879,375
aNewbridge Networks Corp.	Canada	74,000	2,580,750
aPinnacle Systems, Inc.	United States	150,000	3,656,250
			12,116,375
Electrical & Electronics 2.5%			
ABB, AB, Class A	Sweden	350,000	4,143,629
aDSC Communications Corp.	United States	84,800	2,035,200
Hitachi, Ltd.	Japan	603,500	4,298,499
Matsushita Electric Industrial Co., Ltd.	Japan	200,000	2,925,634
Motorola, Inc.	United States	100,000	5,706,250
			19,109,212
Electronic Components & Instruments .8%			
BICC, Plc.	United Kingdom	1,366,053	3,859,042
Nanjing Panda Electronics Co., Ltd.	China	17,794,000	2,319,259
			6,178,301
Energy Sources 3.1%			
MOL Magyar Olay - Es Gazipari RT, GDS	Hungary	256,358	6,229,499
Petron Corp., fgn.	Philippines	8,101,033	670,085
Societe Elf Aquitaine, SA	France	41,972	4,881,681
Transportadora de Gas del Sur, SA, Class B, Sponsored ADR	Argentina	386,900	4,328,444
Valero Energy Corp., new	United States	81,000	2,546,438
YPF Sociedad Anonima, ADR	Argentina	155,000	5,299,063
			23,955,210
Financial Services 4.6%			
A.G. Edwards, Inc.	United States	146,100	5,807,475
Axa-UAP, SA	France	157,102	12,156,252
Banca Fideuram, SpA	Italy	896,800	3,987,186
India Fund, Class B	India	720,000	1,064,249
Industrial Credit & Investment Corp. of India, GDR, 144A	India	367,300	4,747,352
London Pacific Group, Ltd.	United Kingdom	256,000	744,186
Morgan Stanley, Dean Witter Discover & Co.	United States	103,100	6,095,787
			34,602,487
Food & Household Products 4.0%			
Archer-Daniels Midland Co.	United States	308,700	6,694,931
aBoston Chicken, Inc.	United States	251,600	1,619,675
IBP, Inc.	United States	272,543	5,706,369
Northern Foods, Plc.	United Kingdom	2,208,797	9,540,691
Oshawa Group, Ltd. Class A	Canada	384,200	6,721,248
			30,282,914
Forest Products & Paper 3.4%			
aAsia Pacific Resources International Hldgs., Ltd., Class A	Indonesia	534,975	1,003,078
Assidomaen, AB.....	Sweden	192,100	4,863,046
Carter Holt Harvey, Ltd.	New Zealand	688,130	1,062,835
Enso OY, Class R	Finland	559,700	4,344,731
Georgia Pacific Corp.	United States	34,000	2,065,500
aGeorgia Pacific Timber Group	United States	34,000	771,375
Metsa Serla OY, Class B	Finland	270,000	2,105,814
Munksjo, AB.....	Sweden	722,500	6,870,206
Primex Forest Products, Ltd.	Canada	195,000	832,371
UPM-Kymmene Corp.	Finland	88,000	1,776,408
			25,695,364
Health & Personal Care/Pharmaceutical 2.4%			
Medeva, Plc.	United Kingdom	1,614,200	\$ 4,281,522
aNycomed ASA Class A, fgn.	United Kingdom	100,908	3,817,401
aNycomed ASA Class B, fgn.	United Kingdom	29,277	1,063,896
Pacific Chemical Co., Ltd.	South Korea	100,000	761,062
Pharmacia & Upjohn	United States	218,900	8,017,213

			17,941,094
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Industrial Components 1.7%			
BTR, Plc.	United Kingdom	2,326,300	7,125,459
aBTR, Plc., fgn.	United Kingdom	135,000	399,458
Goodyear Tire & Rubber Co.	United States	70,000	4,453,750
Yamato Kogyo Co., Ltd.	Japan	212,000	1,274,565
			13,253,232
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Insurance 6.5%			
Ace, Ltd.	Bermuda	40,500	3,908,250
HIH Winterthur International Holdings, Ltd.	Australia	2,185,051	4,685,314
ING Groep, NV	Netherlands	105,188	4,430,279
Partnerre, Ltd.	Bermuda	127,900	5,931,363
ReliaStar Financial Corp.	United States	48,000	1,977,000
Skandia Foersaekrings, AB	Sweden	98,600	4,650,651
Torchmark Corp.	United States	240,000	10,095,000
UNUM Corp.	United States	81,100	4,409,813
Zurich Versicherungsgesellschaft	Switzerland	19,500	9,285,397
			49,373,067
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Leisure & Tourism 1.1%			
Kuoni Reisen Holding, AG, Class B	Switzerland	2,200	8,240,687
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Machinery & Engineering .6%			
Laird Group, Plc.	United Kingdom	112,700	820,892
VA Technologie AG.....	Austria	25,900	3,932,724
			4,753,616
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Merchandising 2.8%			
aCifra SA de CV.....	Mexico	2,132,384	5,257,969
Coles Myer, Ltd.	Australia	1,070,971	5,144,302
Galeries Lafayette	France	5,388	2,972,196
Matsuzakaya Co., Ltd.	Japan	39,000	146,358
Safeway, Plc.	United Kingdom	231,198	1,310,000
The Limited, Inc.	United States	97,902	2,496,501
W.H. Smith Group	United Kingdom	570,900	3,661,419
			20,988,745
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Metals & Mining 3.4%			
Anglo American Platinum Corp., Ltd.	South Africa	377,263	5,038,959
Boehler Uddeholm, AG	Austria	30,000	1,758,698
aChongqing Iron & Steel, Ltd., Class H	China	9,263,000	1,267,103
Companhia Siderurgica Nacional	Brazil	129,100,000	3,585,950
Outokumpu OY, Class A	Finland	31,600	374,037
Pechiney, SA, Class A	France	84,279	3,327,190
Pechiney, SA, ADR.....	France	112,708	2,197,806
Pohang Iron & Steel Co., Ltd.	South Korea	100,000	2,705,015
RGC, Ltd.	Australia	1,074,643	1,638,933
WMC, Ltd.	Australia	1,030,300	3,592,516
			25,486,207
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Multi-Industry 4.8%			
Alfa SA de CV, Class A	Mexico	149,852	1,015,662
Broken Hill Proprietary Co., Ltd.	Australia	372,100	3,455,857
Multi-Industry (cont.)			
CGIP-Compagnie Generale Industrie de Participation	France	23,792	\$ 8,538,792
Hutchison Whampoa, Ltd.	Hong Kong	168,000	1,053,659
Inversiones y Representacion	Argentina	1,136,091	4,227,062
Jardine Strategic Holdings Ltd.	Hong Kong	800,000	2,112,000
La Cemento Nacional, SA, Sponsored GDR	Ecuador	400	83,200
La Cemento Nacional, SA, Sponsored GDR, 144A	Ecuador	3,600	748,800
Metro Pacific Corp.	Philippines	61,256,666	1,694,011
Pacific Dunlop, Ltd.	Australia	2,149,000	4,551,987
PT Modern Photo Film Co., fgn.	Indonesia	282,000	82,036
Saha Union Public Co., Ltd., fgn.	Thailand	4,138,400	2,851,782
Swire Pacific, Ltd., Class A	Hong Kong	861,000	4,722,222
Swire Pacific, Ltd., Class B	Hong Kong	1,166,500	1,181,704
			36,318,774
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Real Estate 4.9%			
Cheung Kong Holdings, Ltd.	Hong Kong	800,000	5,239,386
General Growth Properties	United States	89,000	3,215,125
Highwood Properties, Inc.	United States	164,900	6,132,219
Intrawest Corp.	Canada	119,700	2,094,048
Inversiones y Representacion, GDR	Argentina	2,332	87,741
National Health Investors, Inc.	United States	123,400	5,167,375
Post Properties, Inc.	United States	150,000	6,093,750
The Rouse Co.	United States	80,000	2,620,000

Unibail Union du Credit Bail Immobilier	France	32,029	3,198,377
Weeks Corp.	United States	115,000	3,680,000

			37,528,021

Recreation & Other Consumer Goods .2%			
Fila Holding, SpA, ADR	Italy	60,600	1,219,575

Telecommunications 6.4%			
AT&T Corp.	United States	127,000	7,778,750
British Telecommunications, Plc.	United Kingdom	1,074,500	8,466,223
aGeneral Motors Corp., Class H	United States	66,000	2,437,875
Oy Nokia, AB, Class A	Finland	60,500	4,230,070
PT Indosat, fgn.	Indonesia	30,100	581,306
Tele Danmark, AS, Class B	Denmark	110,200	6,835,330
Telecom, SA, Sponsored ADR	Argentina	100,000	3,575,000
Telecom Italia, SpA	Italy	559,450	2,458,228
aTelefonos de Mexico, SA, Class L, Sponsored ADR	Mexico	86,400	4,843,800
U.S. West Communications Group	United States	172,200	7,770,525

			48,977,107

Textiles & Apparel 1.6%			
Courtaulds Textiles, Plc.	United Kingdom	734,300	4,299,336
Dawson International, Plc.	United Kingdom	1,434,880	1,590,698
aFruit of the Loom, Inc., Class A	United States	136,500	3,497,812
Tae Kwang Industrial Co., Ltd.	South Korea	1,000	182,891
Yizheng Chemical Fibre Co., Ltd., Class H	China	13,356,000	2,413,008

			11,983,745

Transportation 1.9%			
Danzas Holding, AG	Switzerland	12,235	2,425,947
Helikopter Services Group, ASA	Norway	180,600	2,203,932
Koninklijke Frans Maas Groep, NV	Netherlands	50,000	1,716,273
Koninklijke Nedlloyd, NV	Netherlands	260,670	5,913,654
aLandstar System, Inc.	United States	48,900	1,289,737
Shun Tak Holdings	Hong Kong	3,600,000	963,995

			14,513,538

Utilities - Electrical & Gas 8.8%			
BG, Plc.	United Kingdom	1,214,294	5,464,403
British Energy, Ltd., fgn.	United Kingdom	655,100	4,621,033
aCentrica, Plc.	United Kingdom	1,376,200	1,988,990
Electrabel, SA	Belgium	40,900	9,460,284
Ennergy Corp.	United States	213,700	6,397,644
Evn Energie-Versorgung Niederoesterreich AG	Austria	35,400	4,652,179
Hong Kong Electric Holdings, Ltd.	Hong Kong	2,659,000	10,105,504
Iberdrola, SA	Spain	744,700	9,800,614
Korea Electric Power Corp.	South Korea	212,500	1,962,021
National Grid Holdings, Plc.	United Kingdom	1,834,000	8,742,585
Peco Energy Co.	United States	147,100	3,567,175

			66,762,432

Total Common Stocks and Rights (Cost \$542,232,847)			616,889,918

Preferred Stocks 3.1%			
Banco Bradesco, SA, pfd.	Brazil	451,500,022	4,450,070
Coteminas Cia Tecidos Norte de Minas CTNM, pfd	Brazil	1,952,000	699,610
aEmpresa Nacional de Comercio Redito Participacao, pfd	Brazil	1,952,000	1,452
Michaniki, SA, pfd	Greece	449,256	1,772,650
Nacional Financiera, SA, cvt. pfd., 11.25%, 05/15/98	Mexico	6,500	364,000
News Corp., Ltd., pfd.	Australia	1,642,771	8,130,717
Telebras-Telecomunicacoes Brasileiras, SA, pfd., ADR	Brazil	75,000	8,732,813

Total Preferred Stocks (Cost \$17,967,416)			24,151,312

			PRINCIPAL
			AMOUNT*
Bonds 1.7%			
Alfa, SA, cvt. 8.00%, 9/15/00	Mexico	1,650,000	2,380,125
Alfa, SA, cvt. 144A, 8.00%, 9/15/00	Mexico	2,710,000	3,909,175
Government of Italy, cvt., 5.00%, 6/28/01	Italy	4,950,000	6,057,562
MDX Public Co., Ltd., cvt., 4.75%, 9/17/03	Thailand	3,602,000	360,200

Total Bonds (Cost \$14,562,189)			12,707,062

dShort Term Investments 1.0%			
U.S. Treasury Bill, 5.16% with maturities to 1/22/98 (Cost \$7,576,034)	United States	7,600,000	7,578,887

Total Investments before Repurchase Agreements (Cost \$582,338,486)			661,327,179

gRepurchase Agreements 12.6%			
Bank of America, 6.40%, 1/02/98 (Maturity Value \$33,011,733)			
Collateralized by U.S. Treasury Bill	United States	33,000,000	33,000,000
Lehman Brothers, Inc., 6.30%, 1/02/98 (Maturity Value \$34,011,900)			
Collateralized by U.S. Treasury Notes	United States	34,000,000	34,000,000
Swiss Bank Corp., 6.55%, 1/02/98 (Maturity Value \$28,889,509)			
Collateralized by U.S. Treasury Notes	United States	28,879,000	28,879,000

Total Repurchase Agreements (Cost \$95,879,000)			95,879,000

Total Investments (Cost \$678,217,486) 99.8%			757,206,179
Other Assets, less Liabilities .2%			1,238,396

Net Assets 100.0%			\$758,444,575
			=====

*Securites traded in U.S. dollars unless otherwise indicated.
aNon-income producing.
dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.
gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	PRINCIPAL AMOUNT*	VALUE
<S>	<C>	<C>
Templeton Global Income Securities Trust		
Long Term Investments 96.0%		
Argentina 4.9%		
Republic of Argentina,		
8.75%, 5/09/02	6,250,000	\$ 5,950,000
bonds, 10.95%, 11/01/99	1,645,000	1,716,969
senior unsecured notes, Series BGLO, 8.375%, 12/20/03	1,545,000	1,473,544

		9,140,513

Australia 4.0%		
Government of Australia, bonds, Series 1002, 10.00%, 10/15/02	9,543,000AUD	7,320,936

Brazil 6.6%		
Republic of Brazil,		
bonds, 10.125%, 5/15/27	2,300,000	2,160,850
FRN, 6.562%, 4/15/09	3,780,000	3,057,075
notes, 8.875%, 11/05/01	3,905,000	3,910,077
Series C, 8.00%, 4/15/14	3,848,382	3,051,954

		12,179,956

Canada 8.0%		
Government of Canada, deb.,		
Series A32, 10.50%, 7/01/00	2,641,000CAD	2,068,917
Series A37, 10.50%, 3/01/01	5,947,000CAD	4,773,871
Series J25, 10.00%, 5/01/02	9,565,000CAD	7,857,684

		14,700,472

Denmark 2.0%		
Kingdom of Denmark, bonds,		
9.00%, 11/15/00	6,600,000DKK	1,068,518
8.00%, 5/15/03	15,995,000DKK	2,635,759

		3,704,277

Germany 8.9%		
Federal Republic of Germany, Unity, bonds, 8.75%, 8/20/01		
	8,900,000DEM	5,614,074
Government of Germany, Bundesobligation, bonds, Series 118, 5.25%, 2/21/01	17,855,000DEM	10,135,367
Treuhandanstalt, 7.75%, 10/01/02	1,190,000DEM	742,444

		16,491,885

Italy 6.0%		
Buoni Poliennali Del Tesoro, 10.00%, 8/01/03		
	5,980,000,000ITL	4,124,138
Government of Italy, 10.50%, 7/15/00	10,970,000,000ITL	6,990,662

		11,114,800

Mexico 7.1%		
United Mexican States,		
bonds, 9.875%, 1/15/07	1,700,000	1,778,625
bonds, 11.375%, 9/15/16	1,745,000	2,008,931
deb., Series A, 6.25%, 12/31/19	1,250,000	1,045,313
notes, 9.75%, 2/06/01	7,985,000	8,324,363

		13,157,232	

New Zealand 1.9%			
Government of New Zealand, 6.50%, 2/15/00	6,035,000NZD		3,431,142

Spain 6.0%			
Kingdom of Spain, deb., 12.25%, 3/25/00	1,465,450,000ESP		11,127,224

Sweden 5.2%			
Kingdom of Sweden,			
bonds, Series 1033, 10.25%, 5/05/03	36,600,000SEK		5,554,742
deb., Series 1030,13.00%, 6/15/01	26,500,000SEK		4,097,689

			9,652,431

United Kingdom 4.0%			
United Kingdom Treasury, 8.00%, 12/07/00	4,415,000GBP		7,491,208

United States 28.7%			
U.S. Treasury Bond, 6.375%, 8/15/02	9,610,000		\$ 9,862,272
U.S. Treasury Notes,			
6.625%, 4/30/02	18,595,000		19,222,600
7.25%, 8/15/04	10,344,000		11,184,460
6.125%, 8/15/07	8,911,000		9,161,631
6.125%, 11/15/27	3,642,000		3,743,295

			53,174,258

Venezuela 2.7%			
Republic of Venezuela,			
9.25%, 9/15/27	3,376,000		3,034,180
senior unsubordinated deb., 144A, 9.125%, 6/18/07	1,940,000		1,906,050

			4,940,230

Total Long Term Investments (Cost \$180,980,348)			177,626,564

dShort Term Investments			
U.S. Treasury Bill, 5.16%, 1/22/98 (Cost \$79,748)	80,000		79,778

Total Investments before Repurchase Agreement (Cost \$181,060,096)			177,706,342

gRepurchase Agreement .8%			
UBS Securities, Inc., 6.45%, 1/02/98, (Maturity Value \$1,429,512) (Cost \$1,429,000)	1,429,000		1,429,000

Collateralized by U.S. Treasury Note			
Total Investments (Cost \$182,489,096) 96.8%			179,135,342
Other Assets, less Liabilities 2.7%			5,002,903
Net Equity in Forward Contracts .5%			877,929

Net Assets 100.0%			\$185,016,174
=====			

See currency abbreviations on page 147.

*Securities traded in U.S. dollars unless otherwise indicated.
dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.
gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ WARRANTS & RIGHTS	VALUE
Templeton International Equity Fund			
Common Stocks, Warrants and Rights 75.8%			
<S>		<C>	<C>
Aerospace & Military Technology .1%			
Hong Kong Aircraft Engineering Co., Ltd.	Hong Kong	513,400	\$ 1,291,947

Appliances & Household Durables 2.6%			
Electrolux, AB, Class B	Sweden	232,000	16,099,951
Fisher & Paykel Industries, Ltd.	New Zealand	1,321,125	4,219,107
Thorn, Plc.	United Kingdom	3,295,628	8,497,793
aThorn, Plc., Class B	United Kingdom	3,844,900	1,199,795

			30,016,646

Automobiles 1.9%			
Autoliv, Inc.	Sweden	317,000	10,320,596
Fiat, SpA	Italy	3,391,410	9,836,815
Volvo, AB, Class B	Sweden	91,500	2,454,628

Banking 9.7%			
Banco Bradesco, SA BBD, rights	Brazil	22,455,016	80,480
Banco Popular Espanol, SA	Spain	62,400	4,362,061
BPI Sociada de Gestora de Participacoes Socias, SA	Portugal	321,978	7,828,588
Credit Commercial de France	France	128,800	8,827,781
Daegu Bank	South Korea	155,586	350,642
Deutsche Bank, AG	Germany	407,000	28,460,589
Komerčni Banka AS, GDR	Czech Republic	120,000	1,470,000
Korea Long Term Credit Bank	South Korea	175,548	1,077,108
Merita Plc.	Finland	1,254,500	6,860,475
National Bank of Canada	Canada	447,000	7,381,967
National Westminster Bank, Plc.	United Kingdom	641,668	10,638,613
Sparbanken, AB, Class A	Sweden	163,000	3,705,525
Svenska Handelsbanken, Class A	Sweden	155,400	5,372,524
aUniao de Bancos Brasileiros, SA, pfd.	Brazil	28,412,000	1,934,781
aUniao de Bancos Brasileiros, SA, GDR	Brazil	548,700	17,661,281
Union Bank of Norway, Primary Capital Certification	Norway	199,000	7,069,559
			113,081,974
Broadcasting & Publishing 2.4%			
Cordiant, Plc.	United Kingdom	3,561,500	6,375,698
Marieberg Tidnings, AB, Class A	Sweden	210,000	4,919,457
NV Holdingmaatschappij de Telegraaf	Netherlands	504,000	9,495,130
aOriental Press Group, Ltd., warrants	Hong Kong	121,900	1,101
aSaatchi & Saatchi, Plc.	United Kingdom	3,561,500	6,434,191
Sing Tao Holdings, Ltd.	Hong Kong	2,480,400	672,195
			27,897,772
Building Materials & Components 3.3%			
Anglian Group, Plc.	United Kingdom	2,536,000	9,100,578
Cie de Saint Gobain	France	13,292	1,888,288
Hepworth, Plc.	United Kingdom	1,330,100	4,794,983
Keumkang Ltd.	South Korea	19,110	175,316
Pioneer International, Ltd.	Australia	7,462,117	20,377,800
Siam City Cement Public Co., Ltd., fgn.....	Thailand	405,100	432,799
Unione Cementi Marchino Emiliane (Unicem), di Risip	Italy	468,000	1,660,090
			38,429,854
Business & Public Services 1.1%			
Adecco, SA	Switzerland	523	147,728
Esselte, AB, Class B	Sweden	158,500	3,213,957
Lex Service, Plc.	United Kingdom	902,000	6,910,771
aWaste Management International, Plc.	United Kingdom	710,700	2,054,316
			12,326,772
Chemicals 3.0%			
Akzo Nobel, NV	Netherlands	32,300	\$ 5,569,048
Courtaulds, Plc.	United Kingdom	2,919,000	14,262,293
DSM, NV	Netherlands	19,000	1,735,408
Imperial Chemical Industries, Plc.	United Kingdom	857,000	13,230,522
			34,797,271
Construction & Housing 1.6%			
Dragados & Construcciones, SA	Spain	378,000	8,051,264
Sirti, SpA.....	Italy	1,833,800	11,084,694
			19,135,958
Electrical & Electronics 3.8%			
aGeneral Electric Co., Plc.	United Kingdom	1,920,000	12,581,790
Philips Electronics, NV	Netherlands	534,307	32,042,873
			44,624,663
Energy Sources 3.8%			
Hafslund, ASA, Class B.....	Norway	10	48
Elf Aquitaine, SA	France	148,024	17,216,383
Total, SA, Class B	France	62,039	6,751,773
Transportadora de Gas del Sur, SA, Class B, Sponsored ADR	Argentina	221,700	2,480,269
YPF Sociedad Anonima	Argentina	25,100	846,031
YPF Sociedad Anonima, ADR	Argentina	495,000	16,922,812
			44,217,316
Financial Services .8%			
London Pacific Group, Ltd.	United Kingdom	1,618,300	4,704,360
Peregrine Investments Holdings, Ltd.	Hong Kong	7,155,000	5,078,397
aPeregrine Investments Holdings, Ltd., warrants	Hong Kong	715,500	923

Food & Household Products 2.3%			
C P Pokphand Co., Ltd.	Hong Kong	7,134,100	1,123,190
Hillsdown Holdings, Plc.	United Kingdom	2,493,900	6,082,383
McBride, Plc.	United Kingdom	1,000,000	2,923,400
Oshawa Group, Ltd., Class A	Canada	230,000	4,023,652
Tate & Lyle, Plc.	United Kingdom	1,540,500	12,700,877
			26,853,502
Forest Products & Paper 3.0%			
Carter Holt Harvey, Ltd.	New Zealand	3,243,400	5,009,519
Cartiere Burgo, SpA	Italy	696,200	4,150,832
Enso OY, Class R	Finland	209,900	1,629,371
Fletcher Challenge Forests	New Zealand	6,020,000	4,998,577
Mayr-Melnhof Karton, AG	Austria	39,400	2,121,358
PT Barito Pacific Timber, fgn.....	Indonesia	96,500	27,634
PT Indah Kiat Pulp & Paper Corp., fgn	Indonesia	9,724,297	1,723,853
aPT Indah Kiat Pulp & Paper Corp., rights.....	Indonesia	818,888	22,333
aPT Indah Kiat Pulp & Paper Corp., warrants	Indonesia	782,553	30,591
Sappi, Ltd.	South Africa	722,582	3,637,781
Stora Kopparbergs Bergslags, AB, Class B	Sweden	804,250	9,977,282
Unipapel, SA	Spain	52,200	1,092,996
			34,422,127
Health & Personal Care 3.7%			
Internatio-Mueller, NV	Netherlands	240,308	7,561,290
Novartis, AG.....	Switzerland	2,506	4,063,367
Health & Personal Care (cont.)			
Nycomed ASA, Class A.....	United Kingdom	188,413	\$ 7,127,760
Nycomed ASA, Class B	United Kingdom	654,282	23,775,942
			42,528,359
Industrial Components 1.7%			
BTR, Plc.	United Kingdom	4,204,600	12,878,694
aGranges, AB	Sweden	191,000	2,994,937
Meggitt, Plc.	United Kingdom	1,487,610	3,811,378
			19,685,009
Insurance 5.5%			
Ace, Ltd.	Bermuda	227,500	21,953,750
Baloise-Holding.....	Switzerland	7,380	13,647,686
GIO Australia Holdings, Ltd.	Australia	1,549,534	3,961,874
ING Groep, NV	Netherlands	563,685	23,741,128
			63,304,438
Leisure & Tourism 1.2%			
Kuoni Reisen Holding, AG, Class B	Switzerland	3,570	13,372,387
Machinery & Engineering 1.0%			
Bucher Holding, AG, br.	Switzerland	12,800	11,121,678
Merchandising 4.2%			
David Jones, Ltd.	Australia	2,463,527	2,777,696
Hudsons Bay Co.	Canada	357,000	7,956,650
Koninklijke Bijenkorf Beheer KBB, NV	Netherlands	147,900	9,263,581
Kwik Save Group, Plc.	United Kingdom	1,330,900	6,338,868
Safeway, Plc.	United Kingdom	1,695,778	9,608,517
Storehouse, Plc.	United Kingdom	3,314,000	12,926,603
			48,871,915
Metals & Mining 2.8%			
Anglo American Platinum Corp., Ltd.	South Africa	417,465	5,575,922
Boehler Uddeholm, AG	Austria	33,000	1,934,568
Boehler Uddeholm, AG, 144A	Austria	27,055	1,586,053
British Steel, Plc.	United Kingdom	4,033,200	8,727,074
Companhia Siderurgica Nacional, Sponsored ADR	Brazil	276,365	7,133,672
Grupo Mexico, SA de CV, Class B	Mexico	1,983,600	7,373,521
Pohang Iron & Steel Co., Ltd.	South Korea	10,450	282,674
			32,613,484
Miscellaneous Materials & Commodities .1%			
Korea Chemical Co., Ltd.	South Korea	57,900	963,292
Multi-Industry 3.0%			
Harrisons & Crosfield, Plc.	United Kingdom	5,560,000	12,784,128
Jardine Strategic Holdings, Ltd.	Hong Kong	2,626,250	6,762,594
Jardine Strategic Holdings, Ltd.	Hong Kong	484,193	1,278,270

Marine Wendel, SA	France	55,849	6,347,215
Swire Pacific Ltd., Class B	Hong Kong	7,937,100	8,040,552
			35,212,759
Real Estate .2%			
Cheung Kong Holdings, Ltd.	Hong Kong	188,600	1,235,185
Hang Lung Development	Hong Kong	779,000	1,095,767
			2,330,952
Recreation & Other Consumer Goods .8%			
SMH, AG, br.	Switzerland	15,400	\$ 8,492,047
Yue Yuen Industrial Holdings	Hong Kong	394,800	835,556
			9,327,603
Telecommunications 4.5%			
British Telecommunications, Plc.	United Kingdom	1,446,000	11,393,353
Nokia, AB, Class A.....	Finland	155,000	10,837,371
Telefonica de Espana, SA	Spain	646,100	18,447,883
Telefonica del Peru, SA, Class B, ADR	Peru	251,900	5,872,419
Telefonica del Peru, SA, Class B	Peru	2,445,602	5,465,584
			52,016,610
Textiles & Apparel .3%			
Yizheng Chemical Fibre Co., Ltd., Class H	China	19,340,200	3,494,164
Transportation 1.3%			
Air New Zealand, Ltd., Class B	New Zealand	2,322,000	4,651,523
Helikopter Services Group ASA	Norway	134,000	1,635,254
aStena Line, AB, Class B.....	Sweden	1,288,000	4,250,129
Tranz Rail Holdings, Ltd., Sponsored ADR	New Zealand	47,765	549,297
Unitor ASA	Norway	295,000	3,600,000
			14,686,203
Utilities - Electrical & Gas 6.1%			
BG, Plc.	United Kingdom	2,566,588	11,549,815
Centrais Eletricas Brasileiras, SA	Brazil	363,450,000	18,073,989
aCentrica, Plc.	United Kingdom	1,290,000	1,864,407
Cia Sevillana de Electricidad, SA	Spain	246,970	2,310,025
Iberdrola, SA.....	Spain	1,517,800	19,974,985
Korea Electric Power Corp.	South Korea	66,000	609,381
Shandong Huaneng Power Co., Ltd. , Sponsored ADR	China	338,300	2,325,812
Thames Water Group, Plc.	United Kingdom	978,479	14,639,902
			71,348,316
Total Common Stocks, Warrants and Rights (Cost \$730,193,114)			880,368,690
Preferred Stocks 3.6%			
aBanco Bradesco, SA, pfd.	Brazil	525,200,000	5,176,471
Banco Itau, SA, pfd.	Brazil	4,209,000	2,262,802
News Corp., Ltd., pfd.....	Australia	3,486	17,254
Petrobras-Petroleo Brasileiro, SA, pfd.....	Brazil	60,000,000	14,031,629
Telebras-Telecomunicacoes Brasileiras, SA, pfd., ADR	Brazil	177,300	20,644,369
Total Preferred Stocks (Cost \$33,631,335)			42,132,525
			PRINCIPAL AMOUNT*
dShort Term Investments 1.1%			
U.S. Treasury Bill, 5.16%, 1/22/98 (Cost \$12,610,111)	United States	12,650,000	12,614,858
Total Investments before Repurchase Agreements (Cost \$776,434,560)			935,116,073
gRepurchase Agreements 19.1%			
Bank of America, 6.40%, 1/02/98 (Maturity Value \$50,017,778)			
Collateralized by U.S. Treasury Notes.....	United States	50,000,000	\$ 50,000,000
Lehman Brothers, Inc. , 6.30%, 1/02/98 (Maturity Value \$51,017,850)			
Collateralized by U.S. Treasury Notes.....	United States	51,000,000	51,000,000
Morgan Stanley, Inc. , 6.23%, 1/02/98 (Maturity Value \$34,061,785)			
Collateralized by U.S. Treasury Notes	United States	34,050,000	34,050,000
Swiss Bank Corp., 6.55%, 1/02/98 (Maturity Value \$52,018,922)			
Collateralized by U.S. Treasury Notes	United States	52,000,000	52,000,000
UBS Securities, Inc. , 6.45%, 1/02/98 (Maturity Value \$35,012,542)			
Collateralized by U.S. Treasury Notes	United States	35,000,000	35,000,000
Total Repurchase Agreements (Cost \$222,050,000)			222,050,000
Total Investments (Cost \$998,484,560) 99.6%			1,157,166,073

Other Assets, less Liabilities .4%	4,263,476
Net Assets 100.0%	\$1,161,429,549

*Securities traded in U.S. dollars unless otherwise indicated.
aNon-income producing.
dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.
gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

Templeton International Smaller Companies Fund <S>	COUNTRY	SHARES <C>	VALUE <C>
Common Stocks 86.8%			
Aerospace & Military Technology .4%			
Hong Kong Aircraft Engineering Co., Ltd.	Hong Kong	55,100	\$ 138,657
Appliances & Household Durables 1.2%			
Email, Ltd.	Australia	44,964	106,202
Fisher & Paykel Industries, Ltd.	New Zealand	49,222	157,194
Guangdong Kelon Electrical Hldgs., Ltd., Class H	China	92,000	94,386
Guangdong Kelon Electrical Hldgs., Ltd., Class H, 144A	China	40,000	41,038

398,820			
Automobiles 1.9%			
Bertrand Faure, SA	France	4,300	305,719
Bilia, AB	Sweden	21,400	296,477

602,196			
Banking 4.5%			
Banco de Valencia, SA	Spain	3,272	70,766
Banco Pastor, SA	Spain	4,000	337,381
Commercial International Bank Ltd., GDR, 144A	Egypt	13,500	283,500
Korea Long Term Credit Bank	South Korea	9,266	56,853
Singapore Finance, Ltd.	Singapore	148,000	100,979
aUniao de Bancos Brasileiros, SA, GDR	Brazil	10,235	329,439
Union Bank of Norway, Primary Capital Certification	Norway	7,170	254,717

1,433,635			
Beverages & Tobacco .8%			
Sinocan Holdings, Ltd.	Hong Kong	955,000	264,970
Broadcasting & Publishing 3.3%			
aApt Sattellite Holdings, Ltd., ADR	Hong Kong	22,000	258,500
GTC Transcontinental Group, Ltd., Class B	Canada	63,300	575,837
aInchcape Marketing Services, fgn.	Singapore	94,500	28,033
Marieberg Tidnings, AB, Class A	Sweden	8,160	191,156

1,053,526			
Building Materials & Components 5.8%			
Caradon, Plc.	United Kingdom	100,000	294,804
Cementos Diamante, SA, ADR, 144A	Colombia	26,900	354,015
Cristaleria Espanola, SA	Spain	1,291	99,145
Gujarat Ambuja Cements, Ltd.	India	47,500	334,439
aMirgor SA Comercial Industrial Financiera Inmobi, Class C, ADR	Argentina	24,300	58,320
Sarna Kunststoff Holding, AG	Switzerland	52	67,951
Schuttersveld, NV	Netherlands	10,932	253,938
Siam City Cement Public Co., Ltd., fgn.	Thailand	67,621	72,245
Suez Cement Co., GDR, 144A	Egypt	16,450	335,991

1,870,848			
Business & Public Services 4.2%			
aISS International Service System, AS, Class B	Denmark	9,100	334,681
Kardex, AG, br.	Switzerland	1,494	403,742
Lex Service, Plc.	United Kingdom	54,100	414,493
Scribona, AB, Class B	Sweden	19,045	212,280

1,365,196			
Chemicals .7%			
Energia e Industrias Aragonesas Eia, SA	Spain	34,500	230,981
Construction & Housing 2.0%			
Dragados y Construcciones, SA	Spain	14,155	301,496
Hollandische Beton Groep, NV	Netherlands	9,600	178,492
Kumagai Gumi Hong Kong, Ltd.	Hong Kong	215,000	163,699

643,687			

Electrical & Electronics 2.0%			
Dongfang Electrical Machinery Co., Ltd., Class H	China	179,000	\$ 26,103
Tadiran, Ltd., Sponsored ADR	Israel	9,750	344,906
Techtronic Industries Co., Ltd.	Hong Kong	1,201,000	278,978

			649,987

Electronic Components & Instruments 1.5%			
Swisslog Holding, AG	Switzerland	1,000	73,547
VTech Holdings, Ltd.	Hong Kong	136,000	401,032

			474,579

Energy Sources .3%			
Transportadora de Gas del Sur, SA, Class B, sponsored ADR	Argentina	7,000	78,313

Financial Services 2.0%			
Industrial Credit & Investment Corp. of India (ICICI).....	India	170,000	331,760
Morgan Stanley Growth Fund	India	1,275,000	196,779
Peregrine Investments Holdings, Ltd.	Hong Kong	148,225	105,206

			633,745

Food & Household Products 9.4%			
C P Pokphand Co., Ltd.	Hong Kong	200,100	31,504
Chareon Pokphand Feedmill Public Co., Ltd., fgn.	Thailand	71,300	176,727
Hazlewood Foods, Plc.	United Kingdom	252,600	682,445
Hillsdown Holdings, Plc.	United Kingdom	100,000	243,890
Illovo Sugar, Ltd., fgn.	South Africa	187,000	322,778
McBride, Plc.	United Kingdom	64,100	187,390
Melco International Development, Ltd.	Hong Kong	470,000	112,208
National Foods, Ltd.	Australia	179,017	278,385
Oshawa Group, Ltd., Class A	Canada	34,000	594,801
Perkins Foods, Plc.	United Kingdom	236,550	405,983

			3,036,111

Forest Products & Paper 2.4%			
Crown-Van Gelder Papier, SA	Netherlands	6,115	90,474
Empaques Ponderosa, SA de CV, Class B	Mexico	151,800	130,912
Fletcher Challenge Forests	New Zealand	67,441	55,998
Munksjo, AB	Sweden	12,995	123,569
Primex Forest Products, Ltd.	Canada	90,000	384,171

			785,124

Health & Personal Care .7%			
Esaote Biomedica, SpA, ADR 144A	Italy	3,600	95,607
Internatio-Mueller, NV	Netherlands	3,744	117,805

			213,412

Industrial Components 6.7%			
Granges, AB	Sweden	14,679	230,171
Lucas Varity, Plc.	United Kingdom	111,000	392,861
Otra, NV	Netherlands	23,500	336,103
Sylea, SA	France	4,447	424,861
Weir Group, Plc.	United Kingdom	120,900	533,137
Yamato Kogyo Co., Ltd.	Japan	41,000	246,496

			2,163,629

Leisure & Tourism .3%			
Tourism Holdings, Ltd.	New Zealand	155,800	106,749

Machinery & Engineering 2.3%			
Arcadis, NV	Netherlands	21,300	\$ 235,307
China International Marine Containers, Inc., Class B	China	52,000	46,907
Laird Group, Plc.	United Kingdom	62,000	451,600

			733,814

Merchandising 11.7%			
David Jones, Ltd.	Australia	243,000	273,989
De Boer Unigro, NV.....	Netherlands	7,740	244,303
Det Danske Traelastkompagni, AS	Denmark	3,752	334,027
Giordano International, Ltd.	Hong Kong	807,000	278,581
LI & Fung, Ltd.	Hong Kong	241,000	337,444
Makro Atacadista, SA, ADR	Brazil	37,500	302,406
Moebel Walther, AG	Germany	7,506	241,994
Northwest Co. Fund	Canada	24,915	244,085
Sa des Galeries Lafayette	France	810	446,822
Safeway, Plc.	United Kingdom	57,100	323,537
Samas-Groep, NV	Netherlands	2,450	114,063

Somerfield, Plc.	United Kingdom	82,800	284,894
Storehouse, Plc.	United Kingdom	86,900	338,963

			3,765,108

Metals & Mining 3.9%			
Arbed, SA	Belgium	3,240	354,160
Boehler Uddeholm, AG	Austria	4,993	292,706
Impala Platinum Holdings, Ltd.	South Africa	25,000	238,878
PT Tambang Timah, fgn.	Indonesia	204,000	218,836
Vallourec	France	2,356	140,534

			1,245,114

Miscellaneous Materials & Commodities .3%			
Korea Chemical Co., Ltd.	South Korea	2,900	48,248
Thai Glass Industries Public Co., Ltd., fgn.	Thailand	73,900	61,583

			109,831

Multi-Industry 7.0%			
aAmer Group, Ltd., Class A	Finland	11,300	216,702
Inversiones y Representacion, SA	Argentina	142,333	529,579
La Cemento Nacional CA, Sponsored GDR, 144A	Ecuador	1,075	223,600
Marine Wendel, SA	France	3,283	373,112
Murray & Roberts Hldgs., Ltd.	South Africa	150,000	226,549
Nagron Nationaal Grondbezit, NV	Netherlands	7,400	180,652
Pioneer Industries International, Ltd.	Hong Kong	60,000	9,292
Saha Union Public Co., Ltd., fgn.	Thailand	201,000	138,510
Wagon Industrial Holdings, Plc.	United Kingdom	34,300	165,901
Zehnder Holding, AG, br.	Switzerland	465	190,244

			2,254,141

Telecommunications .2%			
aDigital Telecommunications Philippines, Inc.	Philippines	2,072,000	74,694

Textiles & Apparel 2.1%			
Daehan Synthetic Fiber Co., Ltd.	South Korea	3,200	73,440
Dawson International, Plc.	United Kingdom	193,500	214,513
Gamma Holding, NV	Netherlands	3,000	152,393
Inner Mongolia Erdos Cashmere Products Co., Ltd., Class B	China	497,000	168,980
Yizheng Chemical Fibre Co., Ltd., Class H	China	326,000	58,898

			668,224

Transportation 5.4%			
Anangel-American Shipholdings, Ltd., ADR	Greece	35,000	\$ 306,250
Baltrans Holdings, Ltd.	Hong Kong	468,000	62,811
Delgro Corp.	Singapore	78,000	95,331
Helikopter Services Group ASA	Norway	16,400	200,136
Orient Overseas International, Ltd.	Hong Kong	250,000	133,888
Osprey Maritime, Ltd.	Singapore	350,000	280,332
PT Steady Safe	Indonesia	147,702	10,071
aSBS Bus Service, Ltd., fgn.	Singapore	39,000	14,115
Stolt Nielsen, SA, ADR	Norway	15,000	328,125
Tranz Rail Holdings, Ltd., Sponsored ADR	New Zealand	25,400	292,100

			1,723,159

Utilities - Electrical & Gas 1.8%			
Gas y Electricidad, SA	Spain	5,700	411,552
Guangdong Electric Power Development Co., Ltd., Class B, 144A	China	260,400	153,908

			565,460

Wholesale & International Trade 2.0%			
Dahl International, AB	Sweden	4,800	70,731
Dahl International, AB, 144A	Sweden	6,300	92,835
Dauids, Ltd.	Australia	324,000	221,725
Eurodis Electron, Plc.	United Kingdom	50,000	124,409
Inchcape, Bhd., fgn.	Singapore	94,500	145,212

			654,912

Total Common Stocks (Cost \$29,274,145)			
			27,938,622

Preferred Stocks 4.8%			
Ballast Nedam, NV, ctf., cvt., pfd.	Netherlands	6,700	346,953
aBank Austria, AG, new, pfd., 144A	Austria	6,000	270,752
Cia Brasileira de Petroleo Ipiranga, pfd.	Brazil	25,141,000	382,955
Coteminas Cia Tecidos Norte de Minas, pfd	Brazil	335,000	120,066
Moebel Walther, AG, pfd.	Germany	4,550	124,942
Weg, SA, pfd.	Brazil	507,200	313,577

Total Preferred Stocks (Cost \$1,501,555)			1,559,245
.....			-----
		PRINCIPAL	
		AMOUNT	
dShort Term Investments .9%			
U.S. Treasury Bills, 5.16%, 1/22/98 (Cost \$284,101)	United States	\$285,000	284,205

Total Investments before Repurchase Agreements (Cost \$31,059,801)			29,782,072

gRepurchase Agreements 7.1%			
Bank of America, 6.40%, 1/02/98, (Maturity Value \$900,320)			
Collateralized by U.S. Treasury Notes & Bonds	United States	900,000	900,000
Lehman Brothers, Inc., 6.30%, 1/02/98 (Maturity Value \$875,306)			
Collateralized by U.S. Treasury Notes & Bonds	United States	875,000	875,000
UBS Securities, Inc., 6.45%, 1/02/98 (Maturity Value \$513,184)			
Collateralized by U.S. Treasury Notes & Bonds	United States	513,000	513,000

Total Repurchase Agreements (Cost \$2,288,000)			2,288,000

Total Investments (Cost \$33,347,801) 99.6%			32,070,072
Other Assets, less Liabilities .4%			130,633

Net Assets 100.0%			\$32,200,705
			=====

*Securities traded in U.S. dollars unless otherwise indicated.

aNon-income producing.

dSecurities are traded on a discount basis; the rates shown are the discount rates at the time of purchase by the Fund.

gSee Note 1(c) regarding repurchase agreements.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	COUNTRY	SHARES/ WARRANTS	VALUE
Templeton Pacific Growth Fund			
Common Stocks and Warrants 98.9%			
<S>		<C>	<C>
Appliances & Household Durables 1.0%			
Sony Corp.	Japan	19,400	\$ 1,723,520

Banking 13.0%			
Australia & New Zealand Banking Group, Ltd.	Australia	346,000	2,286,627
Bangkok Bank Public Co., Ltd., fgn.	Thailand	622,000	1,594,872
Development Bank of Singapore, Ltd., fgn.	Singapore	518,000	4,425,512
HSBC Holdings, Plc.	Hong Kong	216,200	5,328,975
Industrial Finance Corp. of Thailand, fgn.	Thailand	2,783,133	440,068
Krung Thai Bank Public Co., Ltd., fgn.	Thailand	2,531,400	540,897
Overseas Union Bank, Ltd., fgn.	Singapore	472,560	1,808,373
aPhilippine National Bank	Philippines	962,500	2,115,123
PT Bank Bali, fgn.	Indonesia	3,134,000	413,118
PT Bank Pan Indonesia TBK	Indonesia	6,182,625	899,291
aPT Bank Pan Indonesia TBK, warrants	Indonesia	883,086	7,546
Singapore Finance, Ltd., fgn.	Singapore	213,000	145,328
Thai Farmers Bank Public Co., Ltd.	Thailand	36,570	46,885
Thai Farmers Bank Public Co., Ltd., fgn.	Thailand	733,440	1,371,282
aThai Farmers Bank Public Co., Ltd., fgn., warrants	Thailand	91,680	9,991

			21,433,888

Broadcasting & Publishing 2.3%			
aInchcape Marketing Services, fgn.,	Singapore	1,240,000	367,843
South China Morning Post, Ltd.	Hong Kong	4,888,000	3,437,811

			3,805,654

Chemicals 2.8%			
Fauji Fertilizer Co., Ltd.	Pakistan	2,418,000	4,629,289

Construction & Housing 6.1%			
City Developments, Ltd., fgn.	Singapore	888,600	4,112,180
Daito Trust Construction Co.	Japan	409,000	2,496,538
Road King Infrastructure, Ltd.	Hong Kong	3,790,000	3,472,577

			10,081,295

Electrical & Electronics 2.1%			
Hitachi, Ltd.	Japan	800	5,698
Matsushita Electric Industrial Co., Ltd.	Japan	239,000	3,496,132

			3,501,830

Energy Sources 1.4%			
aHub Power Co., Ltd., GDR, reg.S	Pakistan	74,900	2,331,263

Financial Services .6%			
Commerce Asset-Holding, Bhd, fgn.	Malaysia	1,572,000	751,747
aCommerce Asset-Holding, Bhd, fgn., warrants	Malaysia	34,650	1,737
aCommerce Asset-Holding, Bhd, warrants	Malaysia	163,750	23,576
Public Finance, Bhd., fgn.	Malaysia	928,000	255,292

			1,032,352

Food & Household Products 1.2%			
Chareon Pokphand Feedmill Public Co., Ltd., fgn.	Thailand	829,900	2,057,017

Forest Products & Paper 3.2%			
aAsia Pacific Resources International Holdings, Ltd., Class A	Indonesia	525,000	984,375
Carter Holt Harvey, Ltd.	New Zealand	2,411,800	3,725,090
PT Tjiwi Kimia TBK.....	Indonesia	1,388,741	340,873
aPT Tjiwi Kimia TBK, warrants.....	Indonesia	192,880	11,222
PT Barito Pacific Timber, fgn.	Indonesia	950,000	272,045
aPT Inti Indorayon Utama	Indonesia	129,000	12,900

			5,346,505

Industrial Components 2.1%			
Mitsubishi Heavy Industries, Ltd.	Japan	824,000	\$ 3,433,070

Insurance 5.0%			
GIO Australia Holdings, Ltd.	Australia	1,720,145	4,398,095
National Mutual Asia, Ltd.	Hong Kong	3,860,000	3,835,592

			8,233,687

Leisure & Tourism .9%			
Grand Hotel Holdings, Ltd.	Hong Kong	5,415,000	1,415,070

Machinery & Engineering .5%			
Van Der Horst, Ltd.	Singapore	2,102,000	804,384

Merchandising 2.2%			
Coles Myer, Ltd.	Australia	742,200	3,565,083

Metals & Mining 1.9%			
Capral Aluminium, Ltd.	Australia	1,521,000	3,192,025

Miscellaneous Materials & Commodities 1.8%			
Golden Hope Plantations, Bhd., fgn.	Malaysia	2,607,000	3,016,197

Multi-Industry 8.6%			
Hicom Holdings, Bhd.	Malaysia	1,634,000	941,036
Jardine Matheson Holdings, Ltd.	Hong Kong	632,031	3,223,358
PT Astra International, Inc.	Indonesia	4,380,000	1,134,818
Sime Darby, Bhd., fgn.	Malaysia	1,798,800	1,729,660
Swire Pacific, Ltd., Class A	Hong Kong	645,000	3,537,553
Wheelock & Co., Ltd.	Hong Kong	3,100,000	3,620,467

			14,186,892

Real Estate 8.4%			
Cheung Kong Holdings, Ltd.	Hong Kong	800,000	5,239,386
aFilinvest Land, Inc.	Philippines	5,675,000	224,198
Hon Kwok Land Investment Co., Ltd.	Hong Kong	5,940,438	1,073,250
New World Development Co., Ltd.	Hong Kong	1,317,778	4,557,549
Parkway Holdings, Ltd., fgn.	Singapore	1,217,000	2,743,756

			13,838,139

Recreation & Other Consumer Goods .6%			
Nintendo Co., Ltd.	Japan	10,800	1,067,014

Telecommunications 5.9%			
Hong Kong Telecommunications, Ltd.	Hong Kong	2,438,633	5,019,512
Pakistan Telecommunications Corp., PTC, Class A	Pakistan	6,300,000	4,760,146

			9,779,658

Textiles & Apparel 4.8%			
Nisshinbo Industries, Inc.	Japan	700,000	2,948,610
PT Indorama Synthetics	Indonesia	3,657,384	1,629,198
PT Panasia Indosyntec	Indonesia	3,423,000	155,591
Wacoal Corp.	Japan	330,000	3,285,594

			8,018,993

Transportation 15.4%			
Cathay Pacific Airways, Ltd.	Hong Kong	3,000,000	2,439,024
East Japan Railway Co.	Japan	1,200	5,413,188

Great Eastern Shipping Co., Ltd., GDR	India	156,100	854,648
Guangshen Railway Co., Ltd., ADR	China	181,500	2,438,906
GZI Transport, Ltd.	China	1,008,000	338,211
aGZI Transport, Ltd., warrants 144A	China	201,600	5,984
Hitachi Zosen Corp.....	Japan	640,000	1,024,431
Transportation (cont.)			
Hong Kong Ferry Holdings Co., Ltd., Bhd.	Hong Kong	745,000	\$ 865,273
Malaysian International Shipping Corp., fgn.	Malaysia	3,342,667	4,898,625
Qantas Airways, Ltd., ADR, 144A	Australia	118,100	2,084,465
Singapore Airlines, Ltd., fgn.	Singapore	758,000	4,946,900
Tranz Rail Holdings, Ltd., Sponsored ADR	New Zealand	8,900	102,350

			25,412,005

Utilities - Electrical & Gas 4.1%			
China Light & Power Co., Ltd.	Hong Kong	931,000	5,166,215
Shandong Huaneng Power Co., Ltd., Sponsored ADR	China	225,000	1,546,875

			6,713,090

Wholesale & International Trade 3.0%			
Brierley Investments, Ltd.	New Zealand	4,177,353	2,983,460
Inchcape, Bhd., fgn.....	Singapore	1,240,000	1,905,429

			4,888,889

Total Investments (Cost \$235,321,791) 98.9%.....			163,506,809
Other Assets, less Liabilities 1.1%			1,897,006

Net Assets 100.0%.....			\$165,403,815
			=====

aNon-income producing.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	PRINCIPAL AMOUNT <C>	VALUE <C>
U.S. Government Securities Fund		
<S>		
Mortgage-Backed Securities 74.3%		
Government National Mortgage Association (GNMA) - Fixed Rate 44.7%		
hGNMA I, 6.00%, 1/01/28	\$ 5,000,000	\$ 4,832,813
.GNMA I, SF, 6.00%, 12/15/23 - 1/15/24	12,098,055	11,741,057
.GNMA II, 6.00%, 1/20/24 - 10/20/24	2,033,028	1,956,562
hGNMA I, 6.50%, 1/01/28	5,000,000	4,950,000
.GNMA I, SF, 6.50%, 5/15/23 - 5/15/24	52,226,117	51,875,511
.GNMA II, 6.50%, 1/20/26 - 12/20/27	26,476,869	26,139,328
hGNMA II, 6.50%, 1/01/28	4,000,000	3,941,250
.GNMA, PL, 6.50%, 9/15/28	8,615,403	8,407,169
.GNMA I, SF, 7.00%, 3/15/22 - 12/15/26	51,486,196	52,113,978
.GNMA II, 7.00%, 1/20/24 - 10/20/27	30,867,319	31,056,252
.GNMA I, SF, 7.25%, 11/15/25	1,806,904	1,832,074
.GNMA, PL, 7.25%, 5/15/22 - 8/15/22	2,211,719	2,284,440
.GNMA I, SF, 7.50%, 2/15/17 - 5/15/27	42,547,392	43,798,392
.GNMA II, 7.50%, 11/20/16 - 11/20/26	31,939,883	32,685,961
.GNMA I, SF, 8.00%, 4/15/05 - 6/15/25	26,373,677	27,574,036
.GNMA II, 8.00%, 2/20/16 - 8/20/26	2,955,633	3,079,998
.GNMA I, SF, 8.25%, 4/15/25	2,081,020	2,200,034
.GNMA I, SF, 8.50%, 8/15/21 - 12/15/24	9,194,784	9,760,666
.GNMA I, SF, 9.00%, 4/15/16 - 2/15/21	3,499,103	3,821,934
.GNMA I, SF, 9.50%, 7/15/16 - 12/15/21	8,257,749	9,044,189
.GNMA II, 9.50%, 4/20/25	1,254,112	1,346,014
.GNMA I, SF, 10.00%, 8/15/17 - 8/15/21	6,850,195	7,532,191

		341,973,849

Government National Mortgage Association (GNMA) - Adjustable Rate 1.4%		
.GNMA, Cap 11.50%, Margin 1.50% + CMT, Resets Annually, 7.00%, 7/20/17	3,275,326	3,376,112
.GNMA, Cap 11.50%, Margin 2.50% + CMT, Resets Annually, 8.00%, 7/20/25	2,568,610	2,688,077
.GNMA, Cap 14.00%, Margin 1.50% + CMT, Resets Annually, 7.00%, 1/20/16	4,704,237	4,845,232

		10,909,421

Federal National Mortgage Association (FNMA) - Fixed Rate 7.7%		
.FNMA, 6.00%, 10/01/23 - 4/01/24	6,495,994	6,292,325
hFNMA, 6.00%, 1/01/28	5,000,000	4,820,313
.FNMA, 6.50%, 1/01/24 - 6/01/24	14,689,539	14,572,255
.FNMA, 7.00%, 5/01/24	1,774,947	1,796,939
.FNMA, PL, 7.00%, 3/17/35	7,456,275	7,360,686
.FNMA, 7.50%, 4/01/23 - 8/01/25	10,385,606	10,653,116
.FNMA, 8.00%, 7/01/16 - 2/01/25	11,859,708	12,344,242
.FNMA, 8.50%, 10/01/19 - 3/01/22	875,202	925,420

Federal National Mortgage Association (FNMA) - Adjustable Rate 7.6%

.FNMA, Cap 12.059%, Margin 1.25% + COFI, Resets Monthly, 6.149%, 11/01/35	8,198,111	8,197,538
.FNMA, Cap 12.49%, Margin 2.00% + CMT, Resets Annually, 7.734%, 2/01/19	4,438,474	4,644,916
.FNMA, Cap 12.786%, Margin 1.25% + COFI, Resets Monthly, 6.154%, 2/01/03	1,145,433	1,145,021
.FNMA, Cap 12.819%, Margin 2.127% + CMT, Resets Annually, 7.826%, 9/01/18	5,750,370	6,053,312
.FNMA, Cap 12.93%, Margin 2.24% + CMT, Resets Annually, 7.137%, 2/01/27	9,223,367	9,483,872
.FNMA, Cap 13.313%, Margin 2.126% + CMT, Resets Annually, 7.736%, 7/01/19	4,052,468	4,237,444
.FNMA, Cap 13.644%, Margin 2.011% + CMT, Resets Annually, 7.695%, 1/01/18	12,095,902	12,660,309
.FNMA, Cap 14.625%, Margin 1.25% + COFI, Resets Monthly, 6.138%, 6/01/02	5,140,799	5,137,355
.FNMA, Cap 14.808%, Margin 1.825% + 3CMT, Resets Tri-Annually, 8.597%, 7/01/20	2,015,250	2,135,823
.FNMA, Cap 15.156%, Margin 2.284% + 3CMT, Resets Tri-Annually, 8.524%, 3/01/20	4,443,722	4,705,768

58,401,358

Federal Home Loan Mortgage Corp. (FHLMC) - Fixed Rate 9.5%

hFHLMC, 6.00%, 1/01/28	5,000,000	4,820,313
.FHLMC, 6.50%, 6/01/08 - 1/01/24	20,875,862	20,792,900
.FHLMC, 7.00%, 4/01/24	15,914,519	16,140,028
.FHLMC, PL, 7.00%, 9/17/31	19,607,350	19,656,368
.FHLMC, 7.50%, 11/01/22 - 5/01/24	5,399,987	5,556,241
Federal Home Loan Mortgage Corp. (FHLMC) - Fixed Rate (cont.)		
.FHLMC, 8.00%, 5/01/16 - 5/01/22	\$ 3,775,521	\$ 3,935,621
.FHLMC, 8.50%, 4/01/18 - 3/01/22	1,117,541	1,176,559
.FHLMC, 9.00%, 3/01/03	613,956	635,335

72,713,365

Federal Home Loan Mortgage Corp. (FHLMC) - Adjustable Rate 3.4%

.FHLMC, Cap 10.99%, Margin 2.225% + CMT, Resets Annually, 8.005%, 6/01/22	2,903,738	3,029,441
.FHLMC, Cap 12.522%, Margin 2.105% + CMT, Resets Annually, 7.653%, 6/01/22	4,032,797	4,218,295
.FHLMC, Cap 13.006%, Margin 2.00% + CMT, Resets Annually, 7.62%, 9/01/19	2,276,018	2,385,631
.FHLMC, Cap 13.125%, Margin 2.00% + CMT, Resets Annually, 7.785%, 7/01/18	2,870,403	2,994,281
.FHLMC, Cap 13.458%, Margin 2.195% + CMT, Resets Annually, 7.821%, 2/01/19	6,002,770	6,295,706
.FHLMC, Cap 13.879%, Margin 2.089% + CMT, Resets Annually, 7.728%, 4/01/18	6,341,546	6,624,969

25,548,323

.Total Mortgage-Backed Securities (Cost \$552,232,634) 568,311,612

.Other Agency Securities 24.3%

.Federal Agriculture Mortgage Corp., 7.23%, 1/17/07	5,000,000	5,186,405
.Federal Farm Credit Bank, 5.80%, 9/16/03	5,000,000	4,894,375
.Federal Home Loan Bank, 0.00%, 8/15/22	10,000,000	1,495,090
.FICO Strips, 0.00%, 11/11/01	3,876,000	3,083,699
.FICO Strips, 0.00%, 3/07/02	10,000,000	7,801,960
.FICO Strips, 0.00%, 5/11/02	1,925,000	1,485,823
.FICO Strips, 0.00%, 5/11/13	10,000,000	3,795,040
.FICO Strips, Series 1, 0.00%, 5/11/99	15,000,000	13,854,630
.FICO Strips, Series 1, 0.00%, 5/11/09	1,758,000	866,328
.FICO Strips, Series 13, 0.00%, 6/27/09	11,024,000	5,386,591
.FICO Strips, Series 15, 0.00%, 9/07/98	5,000,000	4,808,565
.FICO Strips, Series 16, 0.00%, 4/05/09	3,202,000	1,588,579
.FICO Strips, Series 16, 0.00%, 10/05/10	4,745,000	2,134,994
.FICO Strips, Series A, 0.00%, 2/08/09	2,060,000	1,032,614
.FICO Strips, Series D, 0.00%, 9/26/01	7,000,000	5,611,480
.Housing Urban Development, Series 96-A, 7.63%, 8/01/14	5,000,000	5,418,920
.Housing Urban Development, Series 96-A, 7.66%, 8/01/15	5,000,000	5,435,450
.Small Business Administration, 6.45%, 12/01/15	4,492,876	4,551,419
.Small Business Administration, 6.70%, 12/01/16	4,809,930	4,948,409
.Small Business Administration, 6.85%, 7/01/17	5,000,000	5,118,750
.Small Business Administration, Cap 10.50%, Margin Prime - 0.50%, Resets Quarterly, 8.00%, 3/25/19	7,166,781	7,458,971
.Small Business Administration, Cap 10.85%, Margin Prime - 0.40%, Resets Quarterly, 8.10%, 6/25/19	6,796,371	7,153,181
.Small Business Administration, Cap 10.875%, Margin Prime - 0.125%, Resets Quarterly, 8.375%, 3/25/18	8,451,433	9,000,777
.Student Loan Marketing Association, 0.00%, 5/15/14	15,000,000	4,313,250
.Student Loan Marketing Association, 6.16%, 12/02/99	5,000,000	4,990,650
.Tennessee Valley Authority, 0.00%, 4/15/03	10,000,000	7,346,370
.Tennessee Valley Authority, 0.00%, 4/15/42	6,000,000	2,362,620
.Tennessee Valley Authority, 5.88%, 4/01/36	5,000,000	5,134,465
.Tennessee Valley Authority, 6.125%, 7/15/03	5,000,000	5,001,685
.Tennessee Valley Authority, 6.235%, 7/15/45	19,249,000	19,727,338
.Tennessee Valley Authority, 7.25%, 7/15/43	10,000,000	10,590,400
.Tennessee Valley Authority, 8.375%, 10/01/99	1,000,000	1,043,103
.Tennessee Valley Authority, 8.625%, 11/15/29	12,000,000	12,971,328

.Total Other Agency Securities (Cost \$176,353,866) 185,593,259

.U.S. Government Securities .7%

.U.S. Treasury Strips, 0.00%, 2/15/19 20,000,000 5,610,480

.Total U.S. Government Securities (Cost \$5,245,833) 5,610,480

.Total Long Term Investments (Cost \$733,832,333)	759,515,351
.fRepurchase Agreement 3.0%	
.Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$23,132,563) (Cost \$23,124,489)	\$23,124,489
. BancAmerica Robertson Stephens (Maturity Value \$708,731)	
. Barclays Capital Group, Inc., (Maturity Value \$2,127,176)	
. BT Alex Brown, Inc., (Maturity Value \$2,002,942)	
. Chase Securities, Inc., (Maturity Value \$2,127,176)	
. CIBC Wood Gundy Securities Corp., (Maturity Value \$2,127,176)	
. Deutsche Morgan Grenfell/ C.J. Lawrence, Inc., (Maturity Value \$2,127,176)	
. Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$2,127,176)	
. Dresdner Kleinwort Benson, North America, L.L.C., (Maturity Value \$2,127,176)	
. Greenwich Capital Markets, Inc., (Maturity Value \$1,276,306)	
. Paribus Corp., (Maturity Value \$2,127,176)	
. SBC Warburg Dillon Read, Inc. (Maturity Value \$2,127,176)	
. UBS Securities, L.L.C., (Maturity Value \$2,127,176)	
. Collateralized by U.S. Treasury Bills & Notes	
.Total Investments (Cost \$752,956,822) 102.3%	782,639,840
.Other Assets, less Liabilities (2.3)%	(17,555,399)
.Net Assets 100.0%	\$765,084,441

fSee Note 1(c) regarding joint repurchase agreement.
hSufficient collateral has been segregated for securities traded on a when-issued or delayed delivery basis.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

Utility Equity Fund	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
Common Stocks 94.4%			
aAES Corp.	United States	436,000	\$ 20,328,500
aAirTouch Communications, Inc.	United States	496,100	20,619,156
Allegheny Energy, Inc.	United States	750,000	24,375,000
American Electric Power Co.	United States	590,230	30,470,624
Ameritech Corp.	United States	100,000	8,050,000
aAscend Communications, Inc.	United States	35,600	872,200
aBeijing Datang Power Generation Co., Ltd.	China	3,291,000	1,507,685
BSES, Ltd., Sponsored GDR, 144A	India	158,600	2,755,675
aCable & Wireless Communications, Plc, ADR	United Kingdom	1,186,895	5,175,418
Central & South West Corp.	United States	647,400	17,520,263
CINergy Corp.	United States	1,104,800	42,396,700
Companhia Energetica de Minas Gerais, Sponsored ADR	Brazil	33,100	1,438,125
Companhia Paranaense de Energia-Copel, Sponsored ADR	Brazil	83,300	1,140,169
Dominion Resources, Inc.	United States	465,000	19,791,563
DPL, Inc.	United States	716,000	20,585,000
Duke Energy Corp.	United States	760,000	42,085,000
Edison International	United States	763,600	20,760,375
Electricidade Sao Paulo	Brazil	22,700,000	4,271,314
Empresa Nacional de Electricidad, SA, Sponsored ADR	Chile	978,800	17,312,525
Enova Corp.	United States	732,560	19,824,905
Enron Corp.	United States	1,040,000	43,225,000
Entergy Corp.	United States	996,200	29,823,738
Espoon Sahko Oyj, 144A	Finland	195,000	4,294,212
aEsprit Telecom Group, Plc., ADR	United Kingdom	1,076,300	12,108,375
Florida Progress Corp.	United States	932,000	36,581,000
FPL Group, Inc.	United States	626,400	37,075,050
France Telecom, SA, Sponsored ADR	France	69,500	2,520,869
GPU, Inc.	United States	900,000	37,912,500
aGrupo Iusacell, SA, Series D	Mexico	55,600	81,294
aGrupo Iusacell, SA, Series L, Sponsored ADR	Mexico	144,440	3,132,543
Hellenic Telecommunication Organization, SA	Greece	177,940	3,648,444
Hong Kong Telecommunications, Ltd.	Hong Kong	1,747,000	3,595,903
Hongkong Electric Holdings, Ltd.	Hong Kong	1,250,000	4,750,613
aHuaneng Power International, Inc., Sponsored ADR	China	138,000	3,199,875
aICG Communications, Inc.	United States	1,380,000	37,605,000
aItron, Inc.	United States	211,400	3,805,200
Korea Electric Power Corp.	South Korea	83,420	770,220
Light Servicos de Eletricidade, SA	Brazil	10,140,600	4,225,061
MCN Corp.	United States	142,000	5,733,250
MidAmerican Energy Holdings Co.	United States	288,400	6,344,800
National Power, Plc.	United Kingdom	302,500	2,993,303
New Century Energies, Inc.	United States	610,065	29,244,991
New Jersey Resources Corp.	United States	210,000	8,413,125
NIPSCO Industries, Inc.	United States	649,900	32,129,431

Northern States Power Co.	United States	211,800	12,337,350
OGE Energy Corp.	United States	111,100	6,061,894
Pacific Enterprises.....	United States	229,600	8,638,700
PacifiCorp.	United States	950,000	25,887,500
PG&E Corp.	United States	1,055,150	32,116,128
Pinnacle West Capital Corp.	United States	663,000	28,094,625
Portugal Telecom, SA	Portugal	239,400	11,108,264
RWE AG.....	Germany	175,000	9,387,160
SBC Communications, Inc.	United States	100,000	7,325,000
SCANA Corp.	United States	940,644	28,160,530
Scottish Power, Plc.	United Kingdom	590,000	5,198,643
Sonat, Inc.	United States	225,000	10,293,750
Southern Co.	United States	1,836,790	47,526,941
Southern Electric, Plc.	United Kingdom	366,091	2,922,090
TECO Energy, Inc.	United States	1,555,000	43,734,375
Tele Danmark, AS, Sponsored ADR	Denmark	315,000	9,705,938
aTelecel-Comunicacoes Pessoais, SA	Portugal	42,300	\$ 4,506,944
Telecom de Argentina, SA, Sponsored ADR	Argentina	380,000	13,585,000
Telecom Italia, SpA	Italy	5,028,372	22,094,706
Telecomunicacoes Brasileiras, SA, Sponsored ADR	Brazil	20,000	2,328,750
Telefonica de Espana, Sponsored ADR	Spain	79,400	7,230,363
Telefonica del Peru, SA, Class B, ADR	Peru	337,500	7,867,969
aTeleWest Communications, Plc., Sponsored ADR	United Kingdom	69,000	845,250
Texas Utilities Co.	United States	611,350	25,409,234
Tokyo Electric Power Co.	Japan	135,000	2,460,749
Tokyo Gas Co., Ltd.	Japan	2,000,000	4,533,966
Total Access Communication Public Co., Ltd.	Thailand	916,600	311,644
Transportadora de Gas del Sur, SA, Class B, Sponsored ADR	Argentina	370,000	4,139,375
Viag AG	Germany	6,200	3,394,664
Western Resources, Inc.	United States	8,700	374,100
aWorldCom, Inc.	United States	150,000	4,537,500

Total Common Stocks (Cost \$871,669,132)			1,066,613,096

Convertible Preferred Stocks 2.4%			
cCMS Energy Corp., 7.75%, quarterly cvt. pfd.	United States	175,000	11,339,701
Nortel Inversora, SA, 10.00%, cvt. pfd.....	Argentina	240,000	15,225,000

Total Convertible Preferred Stocks (Cost \$18,083,247)			26,564,701

Total Long Term Investments (Cost \$889,752,379)			1,093,177,797

PRINCIPAL
AMOUNT

fRepurchase Agreement 4.3%			
Joint Repurchase Agreement, 6.285%, 1/02/98			
(Maturity Value \$49,138,155) (Cost \$49,121,004).....	United States	\$49,121,004	49,121,004

BancAmerica Robertson Stephens (Maturity Value \$1,505,529)			
Barclays Capital Group, Inc., (Maturity Value \$4,518,566)			
BT Alex Brown, Inc. (Maturity Value \$4,254,694)			
Chase Securities, Inc., (Maturity Value \$4,518,566)			
CIBC Wood Gundy Securities Corp., (Maturity Value \$4,518,566)			
Donaldson, Lufkin & Jenrette Securities Corp., (Maturity Value \$4,518,566)			
Dresdner Kleinwort Benson, North America, L.L.C., (Maturity Value \$4,518,566)			
Duetsche Morgan Grenfell/C.J. Lawrence Inc., (Maturity Value \$4,518,566)			
Greenwich Capital Markets, Inc. (Maturity Value \$2,710,838)			
Paribas Corp., (Maturity Value \$4,518,566)			
SBC Warburg Dillon Read, Inc. (Maturity Value \$4,518,566)			
UBS Securities, L.L.C., (Maturity Value \$4,518,566)			
Collateralized U.S. Treasury Bills & Notes			
Total Investments (Cost \$938,873,383) 101.1%			1,142,298,801
Other Assets, less Liabilities (1.1)%			(12,394,700)

Net Assets 100.0%			\$1,129,904,101
=====			

aNon-income producing.
cSee Note 8 regarding restricted securities.
fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

	PRINCIPAL AMOUNT	VALUE
Zero Coupon Fund - 2000		
Long Term Investments 100.0%		
<S>	<C>	<C>
Government & Agency Securities 98.3%		
FHLB Strips, Series A-1, 0.00%, 2/25/01	\$ 7,567,000	\$ 6,310,613
FHLB Strips, Series A-1, 0.00%, 8/25/01	2,884,000	2,334,907
FHLB Strips, Series A-1, 0.00%, 2/25/02	465,000	365,498
FHLMC, notes, 0.00%, 5/15/00	16,175,000	14,107,835

FICO Strips, 0.00%, 3/26/01	9,023,000	7,454,613
FICO Strips, 0.00%, 4/06/01	2,000,000	1,649,382
FICO Strips, Series 1, 0.00%, 11/11/00	1,139,000	962,072
FICO Strips, Series 7, 0.00%, 2/03/01	1,000,000	833,380
FICO Strips, Series 12, 0.00%, 12/06/00	17,390,000	14,629,146
FICO Strips, Series 15, 0.00%, 9/07/00	148,000	126,373
FICO Strips, Series 15, 0.00%, 3/07/01	5,000,000	4,144,380
FICO Strips, Series 17, 0.00%, 10/05/00	5,875,000	4,992,792
FICO Strips, Series 18, 0.00%, 10/06/00	6,200,000	5,268,059
FICO Strips, Series D, 0.00%, 9/26/00	4,965,000	4,226,084
FICO Strips, Series D, 0.00%, 2/03/01	5,550,000	4,625,259
FNMA Strips, 0.00%, 11/22/99	3,800,000	3,405,233
FNMA Strips, 0.00%, 2/12/02	1,000,000	785,143
FNMA Strips, Series 1, 0.00%, 2/12/00	500,000	442,221
FNMA Strips, Series 1, 0.00%, 2/01/01	1,875,000	1,565,906
FNMA Strips, Series 1, 0.00%, 2/01/02	1,000,000	786,572
FNMA Strips, Series 2, 0.00%, 8/12/01	3,000,000	2,426,982
REFCO Strips, 0.00%, 1/15/01	9,195,000	7,736,103
Tennessee Valley Authority, 0.00%, 7/15/00	3,320,000	2,868,457
Tennessee Valley Authority, 0.00%, 10/15/00	2,500,000	2,128,400
Tennessee Valley Authority, 0.00%, 1/01/01	65,000	54,342
Tennessee Valley Authority, 0.00%, 4/15/01	10,500,000	8,681,967
Tennessee Valley Authority, 0.00%, 4/15/02	1,000,000	779,544
U.S. Treasury Strips, 0.00%, 11/15/00	1,110,375	940,905
U.S. Treasury Strips, Series QO, 0.00%, 2/15/01	2,778,750	2,320,598
U.S. Treasury Strips, Series SD, 0.00%, 2/15/01	3,295,000	2,764,255

109,717,021

Other Securities - "AAA" Rated 1.7%

InterAmerican Development Bank, 0.00%, 12/16/00	220,000	184,756
International Bank for Reconstruction and Development, 0.00%, 2/15/00	405,000	358,657
International Bank for Reconstruction and Development, 0.00%, 8/15/00	945,000	812,293
International Bank for Reconstruction and Development, 0.00%, 2/15/01	735,000	613,323

1,969,029

Total Long Term Investments (Cost \$105,566,642)..... 111,686,050

fRepurchase Agreement

Joint Repurchase Agreement, 6.285%, 1/02/98 (Maturity Value \$14,065) (Cost \$14,060).....	14,060	14,060
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BancAmerica Robertson Stephens (Maturity Value \$433)
Barclays Capital Group, Inc., (Maturity Value \$1,293)
BT Alex Brown, Inc. (Maturity Value \$1,218)
Chase Securities, Inc., (Maturity Value \$1,293)
CIBC Wood Gundy Securities Corp., (Maturity Value \$1,293)
Deutsche Morgan Grenfell / C. J. Lawrence, Inc. (Maturity Value \$1,293)
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$1,293)
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$1,293)
Greenwich Capital Markets, Inc. (Maturity Value \$777)
Paribas Corp. (Maturity Value \$1,293)
SBC Warburg Dillon Read, Inc., (Maturity Value \$1,293)
UBS Securities, L.L.C., (Maturity Value \$1,293)
Collateralized by U.S. Treasury Bills & Notes

Total Investments (Cost \$105,580,702) 100.0%..... 111,700,110
Other Assets, less Liabilities (49,659)

Net Assets 100.0% \$111,650,451
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fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	PRINCIPAL	VALUE
	AMOUNT	
<S>	<C>	<C>
Zero Coupon Fund - 2005		
<S>		
Long Term Investments 100.1%		
Government & Agency Securities 96.3%		
FHLB Strips, Series A-1, 0.00%, 8/25/02	\$ 1,000,000	\$ 763,845
FHLB Strips, Series A-1, 0.00%, 2/25/04	800,000	557,829
FHLB Strips, Series A-1P, 0.00%, 2/25/04	9,110,000	6,352,275
FICO Strips, 0.00%, 10/06/05	11,400,000	7,120,098
FICO Strips, Series 1, 0.00%, 5/11/05	3,500,000	2,240,091
FICO Strips, Series 1, 0.00%, 11/11/05	829,000	514,695
FICO Strips, Series 2, 0.00%, 11/02/05	3,509,000	2,181,903
FICO Strips, Series 12, 0.00%, 12/06/05	11,055,000	6,832,377
FICO Strips, Series 13, 0.00%, 12/27/05	2,755,000	1,696,135
FICO Strips, Series 15, 0.00%, 9/07/05	2,620,000	1,644,461
FICO Strips, Series 19, 0.00%, 12/06/05	10,000,000	6,180,350
FICO Strips, Series D, 0.00%, 9/26/05	6,799,000	4,253,924
FICO Strips, Series D, 0.00%, 3/26/06	1,763,000	1,067,819
FICO Strips, Series F, 0.00%, 3/26/05	5,000,000	3,227,215

FNMA Strips, 0.00%, 2/12/08	120,000	64,790
FNMA Strips, Series 1, 0.00%, 8/01/04	450,000	304,228
FNMA Strips, Series 1, 0.00%, 2/12/05	1,000,000	653,121
FNMA Strips, Series 1, 0.00%, 8/12/05	875,000	553,584
FNMA Strips, Series 1, 0.00%, 2/01/06	4,307,000	2,644,588
FNMA Strips, Series 1, 0.00%, 2/12/06	250,000	153,201
FNMA Strips, Series 1, 0.00%, 2/01/08	1,730,000	935,980
FNMA Strips, Series 2, 0.00%, 2/01/05	6,000,000	3,926,154
FNMA Strips, Series 9, 0.00%, 8/01/06	530,000	315,416
REFCO Strips, 0.00%, 1/15/06	6,500,000	4,060,076
REFCO Strips, Series R, 0.00%, 4/15/06	3,000,000	1,844,925
Tennessee Valley Authority, 0.00%, 10/15/04	6,200,000	4,160,708
Tennessee Valley Authority, 0.00%, 4/15/05	2,260,000	1,468,704
Tennessee Valley Authority, 0.00%, 10/15/05	1,000,000	630,366
U.S. Treasury Strips, 0.00%, 2/15/06	12,920,000	8,083,321

		74,432,179

Other Securities - "AAA" Rated 3.8%		
Exxon Corp., 0.00%, 11/15/04	1,500,000	996,030
International Bank for Reconstruction and Development, 0.00%, 2/15/07	541,000	310,007
International Bank for Reconstruction and Development, 0.00%, 8/15/07	2,500,000	1,388,670
International Bank for Reconstruction and Development, Series 2, 0.00%, 2/15/07	459,000	262,987

		2,957,694

Total Long Term Investments (Cost \$68,293,384)		77,389,873

fRepurchase Agreement .1%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$49,494) (Cost \$49,477)	49,777	49,477

BancAmerica Robertson Stephens (Maturity Value \$1,536)		
Barclays Capital Group, Inc. (Maturity Value \$4,553)		
BT Alex Brown, Inc. (Maturity Value \$4,258)		
Chase Securities, Inc. (Maturity Value \$4,553)		
CIBC Wood Gundy Securities Corp. (Maturity Value \$4,553)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$4,553)		
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$4,553)		
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$4,553)		
Greenwich Capital Markets, Inc. (Maturity Value \$2,723)		
Paribas Corp. (Maturity Value \$4,553)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$4,553)		
UBS Securities, L.L.C. (Maturity Value \$4,553)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$68,342,861) 100.2%		77,439,350
Other Assets, less Liabilities (.2)%		(143,839)

Net Assets 100.0%		\$77,295,511
		=====

fSee Note 1(c) regarding joint repurchase agreement.

FRANKLIN VALUEMARK FUNDS

Statement of Investments, December 31, 1997

	PRINCIPAL	VALUE
	AMOUNT	AMOUNT
<S>	<C>	<C>
Zero Coupon Fund - 2010		
<S>		
Long Term Investments 99.9%		
Government & Agency Securities 94.3%		
FHLMC, capital deb., 0.00%, 11/29/19	\$ 4,450,000	\$ 1,131,444
FICO Strips, 0.00%, 10/06/10	4,040,000	1,817,499
FICO Strips, Series 1, 0.00%, 11/11/10	16,246,000	7,263,863
FICO Strips, Series 3, 0.00%, 5/30/10	2,000,000	920,566
FICO Strips, Series 4, 0.00%, 10/06/10	1,528,000	687,411
FICO Strips, Series 8, 0.00%, 8/03/10	3,021,000	1,373,933
FICO Strips, Series 11, 0.00%, 2/08/11	2,837,000	1,247,764
FICO Strips, Series 12, 0.00%, 6/06/09	4,550,000	2,231,834
FICO Strips, Series 12, 0.00%, 12/06/10	7,500,000	3,337,853
FICO Strips, Series 19, 0.00%, 6/06/10	3,000,000	1,379,259
FICO Strips, Series 19, 0.00%, 12/06/10	2,080,000	925,698
FICO Strips, Series A, 0.00%, 8/08/10	7,000,000	3,180,618
FICO Strips, Series D, 0.00%, 3/26/10	860,000	400,391
FICO Strips, Series D, 0.00%, 9/26/10	860,000	387,589
FICO Strips, Series E, 0.00%, 11/02/10	12,412,000	5,558,292
FNMA Strips, 0.00%, 8/12/09	1,975,000	965,479
FNMA Strips, Series 1, 0.00%, 2/01/10	5,000,000	2,372,025
FNMA Strips, Series 1, 0.00%, 8/01/10	8,250,000	3,790,215
FNMA Strips, Series 1, 0.00%, 8/12/10	1,230,000	563,967
FNMA Strips, Series 1, 0.00%, 2/01/11	4,450,000	1,979,689
FNMA, sub. deb., 0.00%, 2/01/12	3,281,000	1,367,977
REFCO Strips, 0.00%, 10/15/10	20,000,000	9,254,880
REFCO Strips, 0.00%, 1/15/11	8,000,000	3,642,760
SLMA, 0.00%, 5/15/14	8,650,000	2,487,308

Tennessee Valley Authority, 0.00%, 1/01/10	412,000	192,475
Tennessee Valley Authority, 0.00%, 4/15/10	12,000,000	5,653,092
Tennessee Valley Authority, 0.00%, 10/15/10	1,320,000	601,953
Tennessee Valley Authority, 0.00%, 4/15/11	9,525,000	4,205,745
Tennessee Valley Authority, 0.00%, 10/15/11	7,295,000	3,115,111
U.S. Treasury Strips, 0.00%, 11/15/10	18,390,000	8,583,772

		80,620,462

Other Securities - "AAA" Rated 5.6%		
International Bank for Reconstruction and Development, 0.00%, 2/15/11	1,392,000	612,897
International Bank for Reconstruction and Development, 0.00%, 2/15/12	2,800,000	1,153,580
International Bank for Reconstruction and Development, 0.00%, 2/15/13	3,287,000	1,267,811
International Bank for Reconstruction and Development, 0.00%, 8/15/13	4,100,000	1,531,206
International Bank for Reconstruction and Development, Series 2, 0.00%, 2/15/11	500,000	220,150

		4,785,644

Total Long Term Investments (Cost \$69,604,960)		85,406,106

fRepurchase Agreement .5%		
Joint Repurchase Agreement, 6.285%, 1/02/98, (Maturity Value \$461,014) (Cost \$460,853)	460,853	460,853

BancAmerica Robertson Stephens (Maturity Value \$14,292)		
Barclays Capital Group, Inc. (Maturity Value \$42,413)		
BT Alex Brown, Inc. (Maturity Value \$39,648)		
Chase Securities, Inc. (Maturity Value \$42,413)		
CIBC Wood Gundy Securities Corp. (Maturity Value \$42,413)		
Deutsche Morgan Grenfell/C.J. Lawrence, Inc. (Maturity Value \$42,413)		
Donaldson, Lufkin & Jenrette Securities Corp. (Maturity Value \$42,413)		
Dresdner Kleinwort Benson, North America, L.L.C. (Maturity Value \$42,413)		
Greenwich Capital Markets, Inc. (Maturity Value \$25,357)		
Paribas Corp. (Maturity Value \$42,413)		
SBC Warburg Dillon Read, Inc. (Maturity Value \$42,413)		
UBS Securities, L.L.C. (Maturity Value \$42,413)		
Collateralized by U.S. Treasury Bills & Notes		
Total Investments (Cost \$70,065,813) 100.4%		85,866,959
Other Assets, less Liabilities (.4)%		(352,233)

Net Assets 100.0%		\$85,514,726
		=====

fSee Note 1(c) regarding joint repurchase agreement.

See notes to financial statements.

</TABLE>

FRANKLIN VALUEMARK FUNDS
Statement of Investments, December 31, 1997

Currency Abbreviations

ARS	- Argentina Peso
AUD	- Australian Dollar
CAD	- Canadian Dollar
DEM	- German Mark
DKK	- Danish Krone
ESP	- Spanish Peseta
GBP	- British Pound
ITL	- Italian Lira
MYR	- Malaysian Ringgit
NLG	- Dutch Guilder
NZD	- New Zealand Dollar
SEK	- Swedish Krone
XEU	- European Currency Unit
ZAR	- South African Rand

FRANKLIN VALUEMARK FUNDS

Financial Statements

<TABLE>
<CAPTION>

Statements of Assets and Liabilities
December 31, 1997

	Capital Growth Fund	Growth and Income Fund	High Income Fund	Income Securities Fund	Money Market Fund
Assets:					
Investments in securities:					
<S>	<C>	<C>	<C>	<C>	<C>

Cost	\$ 76,532,823	\$ 947,564,869	\$442,926,134	\$1,173,620,186	\$319,247,968
Value	89,751,079	1,251,887,012	463,898,330	1,339,548,605	319,247,968
Repurchase agreements, at value and cost	18,908,076	77,934,388	24,267,113	51,199,502	48,465,000
Cash	678,676	28,263	--	143,304	--
Receivables:					
Investment securities sold	238,155	10,596,577	--	--	--
Capital shares sold	--	--	488,122	169,009	167,409
Dividends and interest	64,307	4,231,074	8,351,395	17,665,974	492,561
Total assets	109,640,293	1,344,677,314	497,004,960	1,408,726,394	368,372,938
Liabilities:					
Payables:					
Investment securities purchased	214,363	5,630,503	--	224,375	--
Capital shares redeemed	--	--	730,371	519,546	765,760
Affiliates	66,126	525,591	209,623	550,153	141,045
Payable upon return of securities loaned (Note 9) ..	--	--	--	559,000	--
Other liabilities	4,817	45,094	29,134	86,701	16,994
Total liabilities	285,306	6,201,188	969,128	1,939,775	923,799
Net assets, at value	\$109,354,987	\$1,338,476,126	\$496,035,832	\$1,406,786,619	\$367,449,139
Net assets consist of:					
Undistributed net investment income	\$ 534,645	\$ 42,883,458	\$ 44,013,099	\$ 102,009,670	\$--
Net unrealized appreciation	13,218,256	304,312,389	20,958,498	165,916,140	--
Accumulated net realized gain (loss)	(194,543)	102,378,676	2,607,265	24,225,942	--
Capital shares	95,796,629	888,901,603	428,456,970	1,114,634,867	367,449,139
Net assets, at value	\$109,354,987	\$1,338,476,126	\$496,035,832	\$1,406,786,619	\$367,449,139
Shares outstanding	8,150,036	63,702,777	34,324,418	76,595,043	367,449,139
Net asset value and offering price per share (net asset value / shares outstanding)	\$13.42	\$21.01	\$14.45	\$18.37	\$1.00

	utual Discovery Securities Fund	Mutual Shares Securities Fund	Natural Resources Fund	Real Estate Securities Fund	Rising Dividends Fund
Assets:					
Investments in securities:					
<S>	<C>	<C>	<C>	<C>	<C>
Cost	\$184,554,180	\$364,589,386	\$79,505,232	\$295,217,467	\$534,160,098
Value	195,034,457	389,434,962	70,974,881	425,517,598	764,654,772
Repurchase agreements, at value and cost	--	--	5,016,854	28,786,173	9,991,318
Cash	2,222,385	846,702	110,563	317,226	160,991
Receivables:					
Investment securities sold	717,572	4,190,776	311,252	--	4,616,323
Capital shares sold	151,062	404,414	--	--	--
Dividends and interest	410,060	565,058	54,697	1,768,181	1,356,872
Unrealized gain on forward exchange contracts (Note 6)	1,355,167	832,599	--	--	--
Deposits with brokers for securities sold short ..	--	1,149,867	--	--	--
Total assets	199,890,703	397,424,378	76,468,247	456,389,178	780,780,276
Liabilities:					
Payables:					
Investment securities purchased	799,249	8,282,485	955,655	--	--
Capital shares redeemed	17,356	25,229	--	--	--
Affiliates	155,892	237,140	38,993	186,221	461,613
Securities sold short, at value (Proceeds \$983,153)	--	907,500	--	--	--
Payable upon return of securities loaned (Note 9) ..	--	--	531,327	15,635,000	--
Unrealized loss on forward exchange contracts (Note 6)	229,621	145,911	--	--	--
Other liabilities	35,823	38,781	17,962	13,694	20,879
Total liabilities	1,237,941	9,637,046	1,543,937	15,834,915	482,492
Net assets, at value	\$198,652,762	\$387,787,332	\$74,924,310	\$440,554,263	\$780,297,784
Net assets consist of:					
Undistributed net investment income	\$ 2,888,764	\$ 4,591,164	\$ 940,017	\$ 14,187,335	\$ 8,595,033
Net unrealized appreciation (depreciation)	11,605,823	25,607,917	(8,530,354)	130,300,131	230,494,674
Accumulated net realized gain (loss)	2,608,666	4,047,825	(6,434,773)	9,319,347	105,085,509
Capital shares	181,549,509	353,540,426	88,949,420	286,747,450	436,122,568
Net assets, at value	\$198,652,762	\$387,787,332	\$74,924,310	\$440,554,263	\$780,297,784
Shares outstanding	16,326,424	31,841,450	6,564,617	17,207,897	39,640,221
Net asset value and offering price per share (net asset value / shares outstanding)	\$12.17	\$12.18	\$11.41	\$25.60	\$19.68

	Small Cap Fund	Templeton Developing Markets Equity Fund	Templeton Global Asset Allocation Fund	Templeton Global Growth Fund	Templeton Global Income Securities Fund
Assets:					
Investments in securities:					
<S>	<C>	<C>	<C>	<C>	<C>
Cost	\$262,349,184	\$310,661,215	\$76,209,299	\$582,338,486	\$181,060,096
Value	286,990,796	277,455,266	82,269,408	661,327,179	177,706,342
Repurchase agreements, at value and cost	28,471,188	--	10,477,000	95,879,000	1,429,000
Cash	248,511	489,876	6,256	39,225	114
Receivables:					
Investment securities sold	3,723,239	2,450,884	1,216,966	--	11,264,113
Capital shares sold	--	--	--	139,177	932
Dividends and interest	231,053	329,949	1,037,031	2,041,367	5,125,551
Unrealized gain on forward exchange contracts					

(Note 6)	--	--	102,249	--	1,212,654
Total assets	319,664,787	280,725,975	95,108,910	759,425,948	196,738,706
Liabilities:					
Payables:					
Investment securities purchased	--	46,325	1,511,439	252,059	11,237,513
Capital shares redeemed	--	202,267	40,400	12,987	18,105
Affiliates	190,241	292,901	63,055	697,414	86,414
Payable upon return of securities loaned (Note 9) ..	6,002,929	--	--	--	--
Unrealized loss on forward exchange contracts (Note 6)	--	--	2,635	--	334,725
Other liabilities	10,078	504,431	89,559	18,913	45,775
Total liabilities	6,203,248	1,045,924	1,707,088	981,373	11,722,532
Net assets, at value	\$313,461,539	\$279,680,051	\$93,401,822	\$758,444,575	\$185,016,174
Net assets consist of:					
Undistributed net investment income	\$ 160,082	\$ 4,921,147	\$ 2,954,949	\$ 17,068,595	\$ 11,163,308
Net unrealized appreciation (depreciation)	24,641,612	(33,205,949)	6,165,196	78,988,693	(2,566,930)
Accumulated net realized gain (loss)	25,718,276	14,728,610	3,861,293	73,505,215	(3,177,047)
Capital shares	262,941,569	293,236,243	80,420,384	588,882,072	179,596,843
Net assets, at value	\$313,461,539	\$279,680,051	\$93,401,822	\$758,444,575	\$185,016,174
Shares outstanding	20,826,160	27,183,878	6,808,249	49,430,801	14,265,198
Net asset value and offering price per share (net asset value / shares outstanding)	\$15.05	\$10.29	\$13.72	\$15.34	\$12.97

	Templeton International Equity Fund	Templeton International Smaller Companies Fund	Templeton Pacific Growth Fund	U.S. Government Securities Fund
Assets:				
Investments in securities:				
<S>	<C>	<C>	<C>	<C>
Cost	\$ 776,434,560	\$31,059,801	\$235,321,791	\$733,832,333
Value	935,116,073	29,782,072	163,506,809	759,515,351
Repurchase agreements, at value and cost	222,050,000	2,288,000	--	23,124,489
Cash	840,840	6,763	279,895	125,080
Receivables:				
Investment securities sold	2,751,394	555,418	1,854,395	611,035
Capital shares sold	--	30,191	--	--
Dividends and interest	3,871,790	88,068	715,486	5,831,991
Total assets	1,164,630,097	32,750,512	166,356,585	789,207,946
Liabilities:				
Payables:				
Investment securities purchased	51,687	484,112	--	23,384,542
Capital shares redeemed	1,937,632	--	680,520	399,547
Affiliates	787,084	27,171	152,163	311,577
Other liabilities	424,145	38,524	120,087	27,839
Total liabilities	3,200,548	549,807	952,770	24,123,505
Net assets, at value	\$1,161,429,549	\$32,200,705	\$165,403,815	\$765,084,441
Net assets consist of:				
Undistributed net investment income	\$ 33,171,270	\$ 716,993	\$ 1,603,896	\$ 50,857,742
Net unrealized appreciation (depreciation)	158,681,513	(1,300,307)	(71,814,982)	25,683,018
Accumulated net realized gain (loss)	69,446,620	603,229	1,235,091	(15,731,355)
Capital shares	900,130,146	32,180,790	234,379,810	704,275,036
Net assets, at value	\$1,161,429,549	\$32,200,705	\$165,403,815	\$765,084,441
Shares outstanding	72,046,407	2,922,545	17,827,473	54,949,206
Net asset value and offering price per share (net asset value / shares outstanding)	\$16.12	\$11.02	\$9.28	\$13.92

	Utility Equity Fund	Zero Coupon Fund - 2000	Zero Coupon Fund - 2005	Zero Coupon Fund - 2010
Assets:				
Investments in securities:				
<S>	<C>	<C>	<C>	<C>
Cost	\$ 889,752,379	\$105,566,642	\$68,293,384	\$69,604,960
Value	1,093,177,797	111,686,050	77,389,873	85,406,106
Repurchase agreements, at value and cost	49,121,004	14,060	49,477	460,853
Cash	51	--	--	--
Receivables:				
Capital shares sold	442,323	25,000	6,550	28,583
Dividends and interest	2,268,909	--	--	--
Total assets	1,145,010,084	111,725,110	77,445,900	85,895,542
Liabilities:				
Payables:				
Capital shares redeemed	499,013	38,116	121,659	169,666
Affiliates	436,311	27,321	21,811	203,820
Payable upon return of securities loaned (Note 9) ..	14,089,259	--	--	--
Other liabilities	81,400	9,222	6,919	7,330
Total liabilities	15,105,983	74,659	150,389	380,816
Net assets, at value	\$1,129,904,101	\$111,650,451	\$77,295,511	\$85,514,726
Net assets consist of:				
Undistributed net investment income	\$ 42,429,889	\$ 7,759,277	\$ 4,789,906	\$ 4,883,419
Net unrealized appreciation	203,423,054	6,119,408	9,096,489	15,801,146
Accumulated net realized gain	61,863,922	1,248,202	1,108,097	582,493

Capital shares	822,187,236	96,523,564	62,301,019	64,247,668
Net assets, at value	\$1,129,904,101	\$111,650,451	\$77,295,511	\$85,514,726
Shares outstanding	55,569,232	7,375,291	4,533,896	4,797,365
Net asset value and offering price per share (net asset value / shares outstanding)	\$20.33	\$15.14	\$17.05	\$17.83

Statements of Operations
for the year ended December 31, 1997

	Capital Growth Fund	Growth and Income Fund	High Income Fund	Income Securities Fund	Money Market Fund
Investment income:+					
<S>	<C>	<C>	<C>	<C>	<C>
Dividends	\$ 491,488	\$ 44,739,580	\$ 1,370,622	\$ 32,771,601	\$--
Interest	617,203	3,747,799	45,071,762	76,059,238	22,550,711
Total investment income	1,108,691	48,487,379	46,442,384	108,830,839	22,550,711
Expenses:					
Management fees (Note 3)	558,503	5,667,415	2,305,480	6,348,820	2,072,982
Custodian fees	796	34,920	10,276	104,689	3,628
Other	11,243	244,419	102,289	294,937	85,746
Total expenses	570,542	5,946,754	2,418,045	6,748,446	2,162,356
Expenses waived/paid by affiliate (Note 3) ...	--	--	--	--	(332,792)
Net expenses	570,542	5,946,754	2,418,045	6,748,446	1,829,564
Net investment income	538,149	42,540,625	44,024,339	102,082,393	20,721,147
Realized and unrealized gains (losses):					
Net realized gain (loss) from:					
Investments	(54,593)	102,523,832	2,609,308	24,253,143	--
Foreign currency transactions	(3,494)	(31,309)	(9,714)	(82,093)	--
Net realized gain (loss)	(58,087)	102,492,523	2,599,594	24,171,050	--
Net unrealized appreciation (depreciation) on:					
Investments	11,235,806	149,153,600	2,737,304	88,394,873	--
Translation of assets and liabilities denominated in foreign currencies	--	(9,962)	(12,945)	(8,446)	--
Net unrealized appreciation	11,235,806	149,143,638	2,724,359	88,386,427	--
Net realized and unrealized gain	11,177,719	251,636,161	5,323,953	112,557,477	--
Net increase in net assets resulting from operations	\$11,715,868	\$294,176,786	\$49,348,292	\$214,639,870	\$20,721,147

+Net of foreign taxes of \$4,403, \$858,133 and \$168,931 for the Capital Growth Fund, the Growth and Income Fund and the Income Securities Fund, respectively.

	Mutual Discovery Securities Fund	Mutual Shares Securities Fund	Natural Resources Fund	Real Estate Securities Fund	Rising Dividends Fund
Investment income:+					
<S>	<C>	<C>	<C>	<C>	<C>
Dividends	\$ 1,827,250	\$ 2,311,245	\$ 1,267,004	\$14,794,688	\$ 12,716,936
Interest	1,691,859	3,804,433	311,901	1,157,595	972,132
Total investment income	3,519,109	6,115,678	1,578,905	15,952,283	13,689,068
Expenses:					
Management fees (Note 3)	930,954	1,265,341	584,675	1,988,023	4,942,390
Administrative fees (Note 3)	174,553	314,146	--	--	--
Custodian fees	94,798	48,403	33,430	3,719	6,761
Other	37,998	53,942	24,698	80,943	142,390
Total expenses	1,238,303	1,681,832	642,803	2,072,685	5,091,541
Net investment income	2,280,806	4,433,846	936,102	13,879,598	8,597,527
Realized and unrealized gains (losses):					
Net realized gain (loss) from:					
Investments	2,035,894	3,798,128	(6,079,954)	9,523,858	105,385,082
Foreign currency transactions	1,203,986	447,294	3,942	--	--
Net realized gain (loss)	3,239,880	4,245,422	(6,076,012)	9,523,858	105,385,082
Net unrealized appreciation (depreciation) on:					
Investments	10,292,427	24,304,412	(13,798,260)	50,445,063	80,215,085
Translation of assets and liabilities denominated in foreign currencies	1,125,546	735,162	(5,465)	--	--
Net unrealized appreciation (depreciation) ...	11,417,973	25,039,574	(13,803,725)	50,445,063	80,215,085
Net realized and unrealized gain (loss)	14,657,853	29,284,996	(19,879,737)	59,968,921	185,600,167
Net increase (decrease) in net assets resulting from operations	\$16,938,659	\$33,718,842	\$(18,943,635)	\$73,848,519	\$194,197,694

+Net of foreign taxes of \$157,090, \$94,318, \$74,795 and \$54,295 for the Mutual Discovery Securities Fund, the Mutual Shares Securities Fund, the Natural Resources Securities Fund and the Rising Dividends Fund, respectively.

	Small Cap Fund	Templeton Developing Markets Equity Fund	Templeton Global Asset Allocation Fund	Templeton Global Growth Fund	Templeton Global Income Securities Fund
Investment income:+					
<S>	<C>	<C>	<C>	<C>	<C>
Dividends	\$ 1,088,027	\$ 8,531,300	\$1,448,280	\$17,924,444	\$ 5,695
Interest	1,001,390	1,692,421	2,725,350	5,833,856	15,430,920
Total investment income	2,089,417	10,223,721	4,173,630	23,758,300	15,436,615
Expenses:					

Management fees (Note 3)	1,878,273	4,277,977	526,125	5,894,743	1,133,609
Administrative fees (Note 3)	--	--	121,414	--	--
Custodian fees	5,037	482,850	89,883	160,925	67,170
Other	51,141	83,549	19,631	127,289	48,460
Total expenses	1,934,451	4,844,376	757,053	6,182,957	1,249,239
Net investment income	154,966	5,379,345	3,416,577	17,575,343	14,187,376
Realized and unrealized gains (losses):					
Net realized gain (loss) from:					
Investments	25,783,169	15,052,246	3,383,385	73,599,265	(4,646,984)
Foreign currency transactions	212	(237,474)	122,781	169,136	4,418,051
Net realized gain (loss)	25,783,381	14,814,772	3,506,166	73,768,401	(228,933)
Net unrealized appreciation (depreciation) on:					
Investments	14,228,539	(53,104,360)	1,045,000	(9,386,358)	(8,948,608)
Translation of assets and liabilities denominated in foreign currencies	--	--	100,033	--	(290,292)
Net unrealized appreciation (depreciation)	14,228,539	(53,104,360)	1,145,033	(9,386,358)	(9,238,900)
Net realized and unrealized gain (loss)	40,011,920	(38,289,588)	4,651,199	64,382,043	(9,467,833)
Net increase (decrease) in net assets resulting from operations	\$40,166,886	\$(32,910,243)	\$8,067,776	\$81,957,386	\$ 4,719,543

+Net of foreign taxes of \$24,227, \$549,004, \$131,101, \$1,431,245 and \$154,832 for the Small Cap Fund, the Templeton Developing Markets Equity Fund, the Templeton Global Asset Allocation Fund, the Templeton Global Growth Fund and the Templeton Global Income Securities Fund, respectively.

	Templeton International Equity Fund	Templeton International Smaller Companies Fund	Templeton Pacific Growth Fund	U.S. Government Securities Fund
Investment income:+				
<S>	<C>	<C>	<C>	<C>
Dividends	\$ 38,098,457	\$ 675,415	\$ 8,160,792	\$--
Interest	9,105,784	394,612	319,823	54,815,051
Total investment income	47,204,241	1,070,027	8,480,615	54,815,051
Expenses:				
Management fees (Note 3)	9,676,740	239,272	2,608,312	3,775,626
Administrative fees (Note 3)	--	42,223	--	--
Custodian fees	845,000	11,366	223,700	7,516
Other	246,706	6,902	73,556	172,631
Total expenses	10,768,446	299,763	2,905,568	3,955,773
Net investment income	36,435,795	770,264	5,575,047	50,859,278
Realized and unrealized gains (losses):				
Net realized gain (loss) from:				
Investments	73,418,575	603,229	6,171,926	84,959
Foreign currency transactions	(2,362,261)	(30,139)	(181,458)	--
Net realized gain	71,056,314	573,090	5,990,468	84,959
Net unrealized appreciation (depreciation) on:				
Investments	24,358,754	(2,381,801)	(112,006,306)	18,636,570
Translation of assets and liabilities denominated in foreign currencies	--	(22,578)	--	--
Net unrealized appreciation (depreciation)	24,358,754	(2,404,379)	(112,006,306)	18,636,570
Net realized and unrealized gain (loss)	95,415,068	(1,831,289)	(106,015,838)	18,721,529
Net increase (decrease) in net assets resulting from operations	\$131,850,863	\$(1,061,025)	\$(100,440,791)	\$69,580,807

+Net of foreign taxes of \$4,053,015, \$71,448, \$726,232 for the Templeton International Equity Fund, the Templeton International Smaller Companies Fund and the Templeton Pacific Growth Fund, respectively.

	Utility Equity Fund	Zero Coupon Fund - 2000	Zero Coupon Fund - 2005	Zero Coupon Fund - 2010
Investment income:+				
<S>	<C>	<C>	<C>	<C>
Dividends	\$ 46,674,953	\$--	\$--	\$--
Interest	1,229,006	8,233,122	5,102,879	5,199,207
Total investment income	47,903,959	8,233,122	5,102,879	5,199,207
Expenses:				
Management fees (Note 3)	5,139,011	724,202	485,690	491,457
Custodian fees	80,885	1,273	940	800
Other	229,163	30,120	20,828	21,227
Total expenses	5,449,059	755,595	507,458	513,484
Expenses waived/paid by affiliate (Note 3)	--	(281,519)	(194,726)	(197,837)
Net expenses	5,449,059	474,076	312,732	315,647
Net investment income	42,454,900	7,759,046	4,790,147	4,883,560
Realized and unrealized gains (losses):				
Net realized gain (loss) from:				
Investments	61,873,020	1,248,982	1,112,714	1,001,612
Foreign currency transactions	(22,920)	--	--	--
Net realized gain	61,850,100	1,248,982	1,112,714	1,001,612
Net unrealized appreciation (depreciation) on:				
Investments	150,457,511	(926,957)	2,363,992	6,324,375
Translation of assets and liabilities denominated in foreign currencies	(2,364)	--	--	--
Net unrealized appreciation (depreciation)	150,455,147	(926,957)	2,363,992	6,324,375
Net realized and unrealized gain	212,305,247	322,025	3,476,706	7,325,987
Net increase in net assets resulting from operations	\$254,760,147	\$8,081,071	\$8,266,853	\$12,209,547

+Net of foreign taxes of \$772,053 for the Utility Equity Fund.

Statements of Changes in Net Assets
for the years ended December 31, 1997 and 1996

	Capital Growth Fund 1997	Growth Fund 1996*	Growth and Income Fund 1997	Income Fund 1996	High Income Fund 1997	High Income Fund 1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 538,149	\$ 110,214	\$ 42,540,625	\$ 39,513,404	\$ 44,024,339	\$ 37,008,728
Net realized gain (loss) from investments and foreign currency transactions	(58,087)	(140,413)	102,492,523	37,811,712	2,599,594	1,210,500
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	11,235,806	1,982,450	149,143,638	55,138,252	2,724,359	13,294,221
Net increase in net assets resulting from operations	11,715,868	1,952,251	294,176,786	132,463,368	49,348,292	51,513,449
Distributions to shareholders from:						
Net investment income	(109,761)	--	(39,059,424)	(22,230,774)	(37,006,747)	(31,018,152)
Net realized gains	--	--	(37,881,070)	(78,714,626)	(1,213,933)	(1,646,547)
Total distributions to shareholders ...	(109,761)	--	(76,940,494)	(100,945,400)	(38,220,680)	(32,664,699)
Capital share transactions (Note 2) ...	53,082,169	42,714,460	43,250,826	156,983,572	38,812,695	66,343,229
Net increase in net assets	64,688,276	44,666,711	260,487,118	188,501,540	49,940,307	85,191,979
Net assets:						
Beginning of year	44,666,711	--	1,077,989,008	889,487,468	446,095,525	360,903,546
End of year	\$109,354,987	\$44,666,711	\$1,338,476,126	\$1,077,989,008	\$496,035,832	\$446,095,525
Undistributed net investment income included in net assets						
End of year	\$ 534,645	\$ 109,751	\$ 42,883,458	\$ 39,433,566	\$ 44,013,099	\$ 37,005,221

*For the period May 1, 1996 (effective date) to December 31, 1996.

	Income Securities Fund 1997	Income Securities Fund 1996	Money Market Fund 1997	Money Market Fund 1996	Mutual Discovery Securities Fund 1997	Mutual Discovery Securities Fund 1996**
Increase (decrease) in net assets:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operations:						
Net investment income	\$ 102,082,393	\$ 103,698,698	\$ 20,721,147	\$ 22,043,733	\$ 2,280,806	\$ 24,287
Net realized gain from investments and foreign currency transactions	24,171,050	19,810,309	--	--	3,239,880	1,860
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	88,386,427	16,747,285	--	--	11,417,973	187,850
Net increase in net assets resulting from operations	214,639,870	140,256,292	20,721,147	22,043,733	16,938,659	213,997
Distributions to shareholders from:						
Net investment income	(99,613,761)	(66,927,738)	(20,721,147)	(22,043,733)	(49,403)	--
Net realized gains	(21,398,124)	(11,125,807)	--	--	--	--
Total distributions to shareholders ...	(121,011,885)	(78,053,545)	(20,721,147)	(22,043,733)	(49,403)	--
Capital share transactions (Note 2) ...	(37,500,786)	21,919,171	(41,480,674)	(20,617,040)	166,345,776	15,203,733
Net increase (decrease) in net assets	56,127,199	84,121,918	(41,480,674)	(20,617,040)	183,235,032	15,417,730
Net assets:						
Beginning of year	1,350,659,420	1,266,537,502	408,929,813	429,546,853	15,417,730	--
End of year	\$1,406,786,619	\$1,350,659,420	\$367,449,139	\$408,929,813	\$198,652,762	\$15,417,730
Undistributed net investment income included in net assets						
End of year	\$ 102,009,670	\$ 99,623,131	\$--	\$--	\$ 2,888,764	\$ 26,147

**For the period November 8, 1996 (effective date) to December 31, 1996.

	Mutual Shares Securities Fund 1997	Mutual Shares Securities Fund 1996**	Natural Resource Fund 1997	Natural Resource Fund 1996	Real Estate Securities Fund 1997	Real Estate Securities Fund 1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 4,433,846	\$ 50,601	\$ 936,102	\$ 1,257,532	\$ 13,879,598	\$ 11,638,350
Net realized gain (loss) from investments and foreign currency transactions	4,245,422	(3,049)	(6,076,012)	(188,566)	9,523,858	5,460,333
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	25,039,574	568,343	(13,803,725)	935,906	50,445,063	57,769,186
Net increase (decrease) in net assets resulting from operations	33,718,842	615,895	(18,943,635)	2,004,872	73,848,519	74,867,869
Distributions to shareholders from:						
Net investment income	(87,831)	--	(1,423,769)	(1,593,439)	(10,951,988)	(9,713,587)
Net realized gains	--	--	--	(1,460,667)	(5,229,900)	--

Total distributions to shareholders	(87,831)	--	(1,423,769)	(3,054,106)	(16,181,888)	(9,713,587)
Capital share transactions (Note 2).....	326,479,399	27,061,027	(14,286,871)	5,519,005	60,166,437	44,093,562
Net increase (decrease) in net assets	360,110,410	27,676,922	(34,654,275)	4,469,771	117,833,068	109,247,844
Net assets:						
Beginning of year	27,676,922	--	109,578,585	105,108,814	322,721,195	213,473,351
End of year	\$387,787,332	\$27,676,922	\$ 74,924,310	\$109,578,585	\$440,554,263	\$322,721,195
Undistributed net investment income included in net assets						
End of year	\$ 4,591,164	\$ 50,601	\$ 940,017	\$ 1,214,989	\$ 14,187,335	\$ 11,259,725

**For the period November 8, 1996 (effective date) to December 31, 1996.

	Rising Dividends Fund		Small Cap Fund		Templeton Developing Markets Equity Fund	
	1997	1996	1997	1996	1997	1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 8,597,527	\$ 9,955,580	\$ 154,966	\$ 585,485	\$ 5,379,345	\$ 3,874,067
Net realized gain from investments and foreign currency transactions	105,385,082	31,514,069	25,783,381	6,726,182	14,814,772	6,246,440
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies.....	80,215,085	71,866,460	14,228,539	10,251,252	(53,104,360)	29,692,572
Net increase (decrease) in net assets resulting from operations.....	194,197,694	113,336,109	40,166,886	17,562,919	(32,910,243)	39,813,079
Distributions to shareholders from:						
Net investment income	(9,956,520)	(10,368,611)	(573,457)	(33,640)	(3,987,427)	(2,182,460)
Net realized gains	(17,001,263)	--	(6,796,191)	(2,727)	(6,324,884)	(4,037,551)
Total distributions to shareholders.....	(26,957,783)	(10,368,611)	(7,369,648)	(36,367)	(10,312,311)	(6,220,011)
Capital share transactions (Note 2)	15,634,172	31,202,926	109,695,331	140,140,940	50,804,184	80,421,511
Net increase in net assets	182,874,083	134,170,424	142,492,569	157,667,492	7,581,630	114,014,579
Net assets:						
Beginning of year	597,423,701	463,253,277	170,968,970	13,301,478	272,098,421	158,083,842
End of year	\$780,297,784	\$597,423,701	\$313,461,539	\$170,968,970	\$279,680,051	\$272,098,421
Undistributed net investment income included in net assets						
End of year	\$ 8,595,033	\$ 9,954,026	\$ 160,082	\$ 578,335	\$ 4,921,147	\$ 3,577,713

	Templeton Global Asset Allocation Fund		Templeton Global Growth Fund		Templeton Global Income Securities Fund	
	1997	1996	1997	1996	1997	1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 3,416,577	\$ 1,438,196	\$ 17,575,343	\$ 10,065,463	\$ 14,187,376	\$ 16,565,628
Net realized gain (loss) from investments and foreign currency transactions.....	3,506,166	477,024	73,768,401	5,117,524	(228,933)	419,588
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	1,145,033	4,638,002	(9,386,358)	73,557,750	(9,238,900)	3,321,562
Net increase in net assets resulting from operations	8,067,776	6,553,222	81,957,386	88,740,737	4,719,543	20,306,778
Distributions to shareholders from:						
Net investment income	(1,548,504)	(14,806)	(11,070,041)	(7,356,652)	(14,522,463)	(17,028,466)
Net realized gains	(446,684)	(29,614)	(3,690,014)	(7,356,653)	--	--
Total distributions to shareholders	(1,995,188)	(44,420)	(14,760,055)	(14,713,305)	(14,522,463)	(17,028,466)
Capital share transactions (Note 2)	31,055,108	35,036,621	111,369,857	167,094,838	(26,903,375)	(24,749,927)
Net increase (decrease) in net assets	37,127,696	41,545,423	178,567,188	241,122,270	(36,706,295)	(21,471,615)
Net assets:						
Beginning of year	56,274,126	14,728,703	579,877,387	338,755,117	221,722,469	243,194,084
End of year	\$93,401,822	\$56,274,126	\$758,444,575	\$579,877,387	\$185,016,174	\$221,722,469
Undistributed net investment income included in net assets						
End of year	\$ 2,954,949	\$ (6,078)	\$ 17,068,595	\$ 10,394,157	\$ 11,163,308	\$ 12,596,126

	Templeton International Equity Fund		Templeton International Smaller Companies Fund		Templeton Pacific Growth Fund	
	1997	1996	1997	1996*	1997	1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 36,435,795	\$ 30,226,760	\$ 770,264	\$ 141,365	\$ 5,575,047	\$ 5,661,152
Net realized gain (loss) from investments and foreign currency transactions	71,056,314	49,297,270	573,090	(8,721)	5,990,468	(4,312,669)
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	24,358,754	122,637,885	(2,404,379)	1,104,072	(112,006,306)	36,732,857
Net increase (decrease) in net						

assets resulting from operations	131,850,863	202,161,915	(1,061,025)	1,236,716	(100,440,791)	38,081,340
Distributions to shareholders from:						
Net investment income	(32,476,317)	(25,386,301)	(155,776)	--	(5,815,823)	(10,991,812)
Net realized gains	(49,797,020)	(31,064,815)	--	--	--	(6,370,262)
Total distributions to shareholders	(82,273,337)	(56,451,116)	(155,776)	--	(5,815,823)	(17,362,074)
Capital share transactions (Note 2)	3,752,649	112,271,953	17,162,468	15,018,322	(85,098,729)	4,104,011
Net increase (decrease) in net assets	53,330,175	257,982,752	15,945,667	16,255,038	(191,355,343)	24,823,277
Net assets:						
Beginning of year	1,108,099,374	850,116,622	16,255,038	--	356,759,158	331,935,881
End of year	\$1,161,429,549	\$1,108,099,374	\$32,200,705	\$16,255,038	\$165,403,815	\$356,759,158
Undistributed net investment income included in net assets						
End of year	\$ 33,171,270	\$ 27,747,634	\$ 716,993	\$ 132,644	\$ 1,603,896	\$ 2,026,130

*For the period May 1, 1996 (effective date) to December 31, 1996.

	U.S. Government Securities Fund		Utility Equity Fund		Zero Coupon Fund - 2000	
	1997	1996	1997	1996	1997	1996
Increase (decrease) in net assets:						
Operations:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net investment income	\$ 50,859,278	\$ 42,987,658	\$ 42,454,900	\$ 54,454,052	\$ 7,759,046	\$ 8,152,035
Net realized gain (loss) from investments and foreign currency transactions	84,959	(158,758)	61,850,100	82,602,515	1,248,982	183,983
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	18,636,570	(18,937,072)	150,455,147	(53,557,473)	(926,957)	(5,248,940)
Net increase in net assets resulting from operations	69,580,807	23,891,828	254,760,147	83,499,094	8,081,071	3,087,078
Distributions to shareholders from:						
Net investment income	(42,870,826)	(41,654,771)	(54,348,880)	(65,540,030)	(8,152,085)	(7,341,063)
Net realized gains	--	--	(75,198,357)	--	(184,468)	(72,481)
Total distributions to shareholders	(42,870,826)	(41,654,771)	(129,547,237)	(65,540,030)	(8,336,553)	(7,413,544)
Capital share transactions (Note 2)	(105,483,057)	218,454,989	(197,599,129)	(239,114,944)	(17,695,009)	(3,429,313)
Net increase (decrease) in net assets	(78,773,076)	200,692,046	(72,386,219)	(221,155,880)	(17,950,491)	(7,755,779)
Net assets:						
Beginning of year	843,857,517	643,165,471	1,202,290,320	1,423,446,200	129,600,942	137,356,721
End of year	\$765,084,441	\$843,857,517	\$1,129,904,101	\$1,202,290,320	\$111,650,451	\$129,600,942
Undistributed net investment income included in net assets						
End of year	\$ 50,857,742	\$ 42,920,983	\$ 42,429,889	\$ 54,346,789	\$ 7,759,277	\$ 8,152,316

	Zero Coupon Fund - 2005		Zero Coupon Fund - 2010	
	1997	1996	1997	1996
Increase (decrease) in net assets:				
Operations:				
<S>	<C>	<C>	<C>	<C>
Net investment income	\$ 4,790,147	\$ 4,940,116	\$ 4,883,560	\$ 4,878,408
Net realized gain (loss) from investments and foreign currency transactions	1,112,714	19,477	1,001,612	(191,720)
Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies	2,363,992	(5,309,151)	6,324,375	(6,860,589)
Net increase (decrease) in net assets resulting from operations	8,266,853	(349,558)	12,209,547	(2,173,901)
Distributions to shareholders from:				
Net investment income	(4,939,956)	(4,218,190)	(4,878,501)	(4,092,016)
Net realized gains	(17,170)	--	(39,001)	(1,109,315)
Total distributions to shareholders	(4,957,126)	(4,218,190)	(4,917,502)	(5,201,331)
Capital share transactions (Note 2)	(8,617,685)	3,949,514	(593,065)	558,186
Net increase (decrease) in net assets	(5,307,958)	(618,234)	6,698,980	(6,817,046)
Net assets:				
Beginning of year	82,603,469	83,221,703	78,815,746	85,632,792
End of year	\$77,295,511	\$82,603,469	\$85,514,726	\$78,815,746
Undistributed net investment income included in net assets				
End of year	\$ 4,789,906	\$ 4,939,715	\$ 4,883,419	\$ 4,878,360

</TABLE>

See notes to financial statements.

FRANKLIN VALUEMARK FUNDS
Notes to Financial Statements

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Valuemark Funds (the Trust) is registered under the Investment Company Act of 1940, as an open-end investment company, consisting of twenty-three

series (the Funds). All Funds are diversified except the Templeton Global Income Securities Fund. Shares of the Funds are sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts issued by Allianz Life Insurance Company of North America (Allianz Life), and its affiliates. The Funds and their investment policies are:

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>
Capital Growth	Growth and Income	High Current Income	Capital Preservation and Income
Capital Growth Fund	Growth and Income Fund	High Income Fund	Money Market Fund
Mutual Discovery Securities Fund	Income Securities Fund	Templeton Global Income Securities Fund	
Natural Resources Fund	Mutual Shares Securities Fund	U.S. Government Securities Fund	
Small Cap Fund	Real Estate Securities Fund	Zero Coupon Fund - 2000	
Templeton Developing Markets Equity Fund	Rising Dividends Fund	Zero Coupon Fund - 2005	
Templeton Global Growth Fund	Templeton Global Asset Allocation Fund	Zero Coupon Fund - 2010	
Templeton International Equity Fund	Utility Equity Fund		
Templeton International Smaller Companies Fund			
Templeton Pacific Growth Fund			

</TABLE>

Effective May 1, 1997, the name of the Precious Metals Fund changed to the Natural Resources Fund. Before May 1, 1997, the portfolio had different investment objectives and policies.

The following summarizes the Funds' significant accounting policies.

a. Security Valuation:

Securities listed or traded on a recognized national exchange or NASDAQ are valued at the latest reported sales price. Over-the-counter securities and listed securities for which no sale is reported are valued within the range of the latest quoted bid and asked prices. Restricted securities and securities for which market quotations are not readily available are valued at fair value as determined by management in accordance with procedures established by the Board of Trustees (the Board).

Portfolio securities in the Money Market Fund are valued at amortized cost which approximates value.

b. Foreign Currency Translation:

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

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

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Repurchase Agreements:

Certain Funds may enter into a joint repurchase agreement whereby their uninvested cash balance is deposited into a joint cash account to be used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the Funds based on their pro-rata interest. Repurchase agreements are accounted for as a loan by the Funds to the seller, collateralized by securities which are delivered to the Funds' custodian. The market value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the Funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. At December 31, 1997, all outstanding repurchase agreements held by the Funds had been entered into on that date.

d. Forward Exchange Contracts:

The Mutual Discovery Securities Fund, the Mutual Shares Securities Fund, the Templeton Global Asset Allocation Fund and the Templeton Global Income Securities Fund may enter into forward exchange contracts to hedge against foreign exchange risks. These contracts are valued daily and the Funds' equity therein is included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses are included in the Statement of Operations.

e. Securities Sold Short:

The Mutual Shares Securities Fund is engaged in selling securities short, which obligates the Fund to replace a security borrowed by purchasing the same security at the current market value. The Fund would incur a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund would realize a gain if the price of the security declines between those dates.

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale and the Fund must maintain a deposit with the broker consisting of cash and securities having a value equal to a specified percentage of the value of the securities sold short.

f. Income Taxes:

No provision has been made for income taxes because each Fund's policy is to qualify as a regulated investment company under the Internal Revenue Code and distribute all of its taxable income.

g. Security Transactions, Investment Income, Expenses and Distributions:

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Bond discount is amortized on an income tax basis. Dividend income and distributions to shareholders are recorded on the ex-dividend date. For the Money Market Fund, distributions from net investment income and capital gains or losses are normally declared and reinvested daily.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets. Other expenses are charged to each Fund on a specific identification basis.

Distributions received by the Trust from securities may be a return of capital (ROC). Such distributions reduce the cost basis of the securities, and any distributions in excess of the cost basis are recognized as capital gains.

h. Accounting Estimates:

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

2. SHARES OF BENEFICIAL INTEREST

At December 31, 1997, there were an unlimited number of shares authorized (\$0.01 par value). Transactions in the Funds' shares were as follows:

<TABLE>

<CAPTION>

	Capital Growth Fund* Shares	Growth Fund* Amount	Growth and Income Fund Shares	Income Fund Amount	High Income Fund Shares	Income Fund Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	7,609,203	\$95,467,235	11,852,804	\$227,366,997	15,001,724	\$213,493,612
Shares issued on reinvestment of distributions .	8,739	109,761	4,094,758	76,940,493	2,802,103	38,220,680
Shares redeemed	(3,398,734)	(42,494,827)	(13,651,515)	(261,056,664)	(14,990,766)	(212,901,597)
Net increase	4,219,208	\$53,082,169	2,296,047	\$ 43,250,826	2,813,061	\$ 38,812,695
1996						
Shares sold	4,551,652	\$49,307,053	17,103,384	\$291,261,819	14,886,206	\$203,832,754
Shares issued on reinvestment of distributions .	--	--	6,313,033	100,945,400	2,553,925	32,664,699
Shares redeemed	(620,824)	(6,592,593)	(13,907,925)	(235,223,647)	(12,349,882)	(170,154,224)
Net increase	3,930,828	\$42,714,460	9,508,492	\$156,983,572	5,090,249	\$ 66,343,229
	Income Securities Fund Shares	Securities Fund Amount	Money Market Fund Shares	Market Fund Amount	Mutual Discovery Securities Fund** Shares	Securities Fund** Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	8,990,147	\$157,499,453	748,100,457	\$748,100,457	17,092,095	\$192,828,736
Shares issued on reinvestment of distributions .	7,246,221	121,011,885	20,721,280	20,721,280	4,419	49,403
Shares redeemed	(18,135,171)	(316,012,124)	(810,302,411)	(810,302,411)	(2,280,587)	(26,532,363)
Net increase (decrease)	(1,898,803)	\$(37,500,786)	(41,480,674)	\$(41,480,674)	14,815,927	\$166,345,776
1996						

Shares sold	12,978,656	\$215,025,216	624,484,193	\$624,484,193	1,510,497	\$ 15,203,733
Shares issued on reinvestment of distributions	4,981,081	78,053,545	22,025,506	22,025,506	--	--
Shares redeemed	(16,378,905)	(271,159,590)	(667,126,739)	(667,126,739)	--	--
Net increase (decrease)	1,580,832	\$ 21,919,171	(20,617,040)	\$(20,617,040)	1,510,497	\$ 15,203,733

	Mutual Shares Securities Fund**		Natural Resources Fund		Real Estate Securities Fund	
	Shares	Amount	Shares	Amount	Shares	Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	31,512,828	\$353,477,935	3,255,526	\$44,002,036	5,979,601	\$139,175,365
Shares issued on reinvestment of distributions	7,793	87,831	107,292	1,423,769	722,405	16,181,889
Shares redeemed	(2,353,072)	(27,086,367)	(4,466,321)	(59,712,676)	(4,062,121)	(95,190,817)
Net increase (decrease)	29,167,549	\$326,479,399	(1,103,503)	\$(14,286,871)	2,639,885	\$ 60,166,437
1996						
Shares sold	2,673,916	\$ 27,061,180	5,826,772	\$92,609,906	4,215,417	\$ 80,007,020
Shares issued on reinvestment of distributions	--	--	200,533	3,054,106	541,263	9,713,587
Shares redeemed	(15)	(153)	(5,826,876)	(90,145,007)	(2,455,248)	(45,627,045)
Net increase	2,673,901	\$ 27,061,027	200,429	\$ 5,519,005	2,301,432	\$ 44,093,562

*For 1996, figures are for the period May 1, 1996 (effective date) to December 31, 1996.

**For 1996, figures are for the period November 8, 1996 (effective date) to December 31, 1996.

2. SHARES OF BENEFICIAL INTEREST (cont.)

	Rising Dividends Fund		Small Cap Fund		Templeton Developing Markets Equity Fund	
	Shares	Amount	Shares	Amount	Shares	Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	9,172,221	\$162,728,294	15,767,713	\$223,364,294	10,816,139	\$137,500,694
Shares issued on reinvestment of distributions	1,563,677	26,957,783	542,684	7,369,648	774,197	10,312,311
Shares redeemed	(9,887,381)	(174,051,905)	(8,440,306)	(121,038,611)	(7,874,889)	(97,008,821)
Net increase	848,517	\$ 15,634,172	7,870,091	\$109,695,331	3,715,447	\$50,804,184
1996						
Shares sold	9,416,748	\$128,553,979	17,929,579	\$214,314,899	12,008,203	\$131,040,673
Shares issued on reinvestment of distributions	776,095	10,368,611	2,914	36,368	568,038	6,220,011
Shares redeemed	(7,989,700)	(107,719,664)	(6,275,212)	(74,210,327)	(5,266,029)	(56,839,173)
Net increase	2,203,143	\$ 31,202,926	11,657,281	\$140,140,940	7,310,212	\$80,421,511

	Templeton Global Asset Allocation Fund		Templeton Global Growth Fund		Templeton Global Income Securities Fund	
	Shares	Amount	Shares	Amount	Shares	Amount
1997						
Shares sold	2,863,159	\$38,251,762	13,313,319	\$200,497,392	1,379,330	\$18,167,921
Shares issued on reinvestment of distributions	149,676	1,995,188	971,695	14,760,055	1,145,305	14,522,463
Shares redeemed	(673,877)	(9,191,842)	(6,882,077)	(103,887,590)	(4,546,864)	(59,593,759)
Net increase (decrease)	2,338,958	\$31,055,108	7,402,937	\$111,369,857	(2,022,229)	\$(26,903,375)
1996						
Shares sold	3,324,255	\$37,900,419	16,172,059	\$204,037,772	1,774,907	\$23,229,506
Shares issued on reinvestment of distributions	3,931	44,420	1,172,375	14,713,305	1,374,371	17,028,466
Shares redeemed	(258,845)	(2,908,218)	(4,156,855)	(51,656,239)	(4,932,897)	(65,007,899)
Net increase (decrease)	3,069,341	\$35,036,621	13,187,579	\$167,094,838	(1,783,619)	\$(24,749,927)

	Templeton International Equity Fund		Templeton International Smaller Companies Fund*		Templeton Pacific Growth Fund	
	Shares	Amount	Shares	Amount	Shares	Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	18,290,362	\$299,526,246	2,609,483	\$30,517,402	6,602,123	\$ 85,539,550
Shares issued on reinvestment of distributions	5,084,879	82,273,337	13,269	155,776	396,714	5,815,823
Shares redeemed	(23,047,242)	(378,046,934)	(1,145,466)	(13,510,710)	(13,342,125)	(176,454,102)
Net increase (decrease)	327,999	\$ 3,752,649	1,477,286	\$17,162,468	(6,343,288)	\$(85,098,729)
1996						
Shares sold	16,304,017	\$233,298,562	1,887,934	\$19,652,954	11,017,347	\$162,907,832
Shares issued on reinvestment of distributions	4,023,601	56,451,117	--	--	1,175,496	17,362,074
Shares redeemed	(12,410,252)	(177,477,726)	(442,675)	(4,634,632)	(11,892,182)	(176,165,895)
Net increase	7,917,366	\$112,271,953	1,445,259	\$15,018,322	300,661	\$ 4,104,011

*For 1996, figures are for the period May 1, 1996 (effective date) to December 31, 1996.

2. SHARES OF BENEFICIAL INTEREST (cont.)

	U.S. Government Securities Fund		Utility Equity Fund		Zero Coupon Fund - 2000	
	Shares	Amount	Shares	Amount	Shares	Amount
1997						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares sold	6,114,131	\$ 83,399,898	1,963,946	\$ 36,229,864	510,404	\$ 7,615,267
Shares issued on reinvestment of distributions	3,245,331	42,870,826	7,553,775	129,547,236	575,729	8,336,552
Shares redeemed	(17,077,659)	(231,753,781)	(20,093,040)	(363,376,229)	(2,241,078)	(33,646,828)
Net decrease	(7,718,197)	\$(105,483,057)	(10,575,319)	\$(197,599,129)	(1,154,945)	\$(17,695,009)
1996						
Shares sold	4,777,016	\$ 64,263,777	4,951,179	\$ 87,970,395	1,346,751	\$20,406,633
Shares issued in connection with substitution transaction***	22,031,312	292,135,204	--	--	--	--
Shares issued on reinvestment of distributions	3,298,082	41,654,771	3,882,703	65,540,030	517,344	7,413,544

Shares redeemed	(13,383,651)	(179,598,763)	(22,222,999)	(392,625,369)	(2,064,008)	(31,249,490)
Net increase (decrease)	16,722,759	\$218,454,989	(13,389,117)	\$(239,114,944)	(199,913)	\$ (3,429,313)

	Zero Coupon Fund - 2005		Zero Coupon Fund - 2010	
	Shares	Amount	Shares	Amount
1997				
<S>	<C>	<C>	<C>	<C>
Shares sold	597,716	\$ 9,749,533	1,745,371	\$28,766,689
Shares issued on reinvestment of distributions	315,539	4,957,126	313,017	4,917,502
Shares redeemed	(1,431,881)	(23,324,344)	(2,100,095)	(34,277,256)
Net decrease	(518,626)	\$(8,617,685)	(41,707)	\$(593,065)
1996				
Shares sold	1,047,318	\$16,865,102	2,638,570	\$42,320,073
Shares issued on reinvestment of distributions	282,342	4,218,190	361,957	5,201,331
Shares redeemed	(1,065,563)	(17,133,778)	(2,908,691)	(46,963,218)
Net increase	264,097	\$ 3,949,514	91,836	\$ 558,186

</TABLE>

***During the fiscal year ended December 31, 1996, the U.S. Government Securities Fund acquired the net assets of the Investment Grade Intermediate Bond Fund and the Adjustable U.S. Government Fund pursuant to a plan of reorganization approved by Funds' shareholders.

3. TRANSACTIONS WITH AFFILIATES

Certain officers and trustees of the Trust are also officers and/or directors of the following entities:

Entity	Affiliation
Franklin Templeton Services, Inc. (FT Services)	Administrative manager
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Advisory Services, Inc. (Advisory Services)	Investment manager
Franklin Mutual Advisers, Inc. (Franklin Mutual)	Investment manager
Templeton Asset Management Ltd. (TAML)	Investment manager
Templeton Global Advisors Ltd. (TGAL)	Investment manager
Templeton Investment Counsel, Inc. (TICI)	Investment manager
Franklin/Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin/Templeton Investor Services, Inc. (Investor Services)	Transfer agent

3. TRANSACTIONS WITH AFFILIATES (cont.)

The Funds pay an investment management fee to Advisers based on the average net assets of the Funds, except the Capital Growth Fund, the Mutual Discovery Securities Fund, the Mutual Shares Securities Fund, the Rising Dividends Fund, the Small Cap Fund, the Templeton Developing Markets Equity Fund, the Templeton Global Asset Allocation Fund, the Templeton Global Growth Fund, the Templeton International Equity Fund, the Templeton International Smaller Companies Fund and the Templeton Pacific Growth Fund as follows:

Annualized Fee Rate	Average Daily Net Assets
.625 of 1%	First \$100 million
.500 of 1%	over \$100 million, up to and including \$250 million
.450 of 1%	over \$250 million, up to and including \$1 billion

Fees are further reduced on net assets over \$10 billion.

Under a subadvisory agreement, TICI provides subadvisory services to the Templeton Global Income Securities Fund and receives from Advisers fees based on the average daily net assets of the Fund.

The Templeton International Equity Fund and the Templeton Pacific Growth Fund pay an investment management fee to Advisers based on the average net assets of the Funds as follows:

Annualized Fee Rate	Average Daily Net Assets
1%	First \$100 million
.90 of 1%	over \$100 million, up to and including \$250 million
.80 of 1%	over \$250 million, up to and including \$500 million

Fees are further reduced on net assets over \$500 million.

Under a subadvisory agreement, TICI provides subadvisory services to the Templeton International Equity Fund and the Templeton Pacific Growth Fund, and receives from Advisers fees based on the average daily net assets of each Fund.

The Capital Growth Fund and the Small Cap Fund pay an investment management fee to Advisers based on the average net assets of the Funds as follows:

Annualized Fee Rate	Average Daily Net Assets
.750 of 1%	First \$500 million
.625 of 1%	over \$500 million, up to and including \$1 billion
.500 of 1%	over \$1 billion

The Rising Dividends Fund pays an investment management fee to Advisory Services based on the average net assets as follows:

Annualized Fee Rate	Average Daily Net Assets
.750 of 1%	First \$500 million
.625 of 1%	over \$500 million, up to and including \$1 billion
.500 of 1%	over \$1 billion

The Templeton Global Growth Fund pays an investment management fee to TGAL based on the average net assets of the Fund as follows:

Annualized Fee Rate	Average Daily Net Assets
1%	First \$100 million
.90 of 1%	over \$100 million, up to and including \$250 million
.80 of 1%	over \$250 million, up to and including \$500 million

Fees are further reduced on net assets over \$500 million.

3. TRANSACTIONS WITH AFFILIATES (cont.)

The Templeton Global Asset Allocation Fund pays an investment management fee to TGAL based on the average net assets of the Fund as follows:

Annualized Fee Rate	Average Daily Net Assets
.650 of 1%	First \$200 million
.585 of 1%	over \$200 million, up to and including \$1.3 billion
.520 of 1%	over \$1.3 billion

Under a subadvisory agreement, TICI provides subadvisory services to the Templeton Global Asset Allocation Fund and receives from TGA fees based on the average daily net assets of the Fund.

The Templeton International Smaller Companies Fund pays an investment management fee to TICI based on the average net assets of the Fund as follows:

Annualized Fee Rate	Average Daily Net Assets
.850 of 1%	First \$200 million
.765 of 1%	over \$200 million, up to and including \$1.3 billion
.680 of 1%	over \$1.3 billion

The Mutual Discovery Securities Fund and the Mutual Shares Securities Fund pay an investment management fee to Franklin Mutual of .80 and .60 of 1%, respectively, per year of the average daily net assets of each Fund.

The Templeton Developing Markets Equity Fund pays an investment management fee to TAML of 1.25 of 1% per year of the average daily net assets of the Fund.

Under an agreement with their respective investment managers, FT Services provides administrative services to the Funds, except for the Mutual Discovery Securities Fund, the Mutual Shares Securities Fund, the Templeton Global Asset Allocation Fund and the Templeton International Smaller Companies Fund. The fee is paid by Advisers based on the average daily net assets, and is not an additional expense of the Funds.

The Mutual Discovery Securities Fund, the Mutual Shares Securities Fund, the Templeton Global Asset Allocation Fund and the Templeton International Smaller Companies Fund pay business management fees to FT Services based on the average net assets of the Funds as follows:

Annualized Fee Rate	Average Daily Net Assets
.150 of 1%	First \$200 million
.135 of 1%	over \$200 million, up to and including \$700 million
.100 of 1%	over \$700 million, up to and including \$1.2 billion

Fees are further reduced on net assets over \$1.2 billion.

Advisers agreed in advance to waive a portion of the management fees for the Money Market Fund, the Zero Coupon Fund - 2000, the Zero Coupon Fund - 2005, and the Zero Coupon Fund - 2010, through December 31, 1997, as noted in the Statement of Operations.

Distribution plans are included in the management agreements of the Funds. No payments were made by any Fund as a result of the plans.

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

4. INCOME TAXES

At December 31, 1997, the following Funds had deferred capital losses [deferred currency losses] occurring subsequent to October 31, 1997. For tax purposes, such losses will be reflected in the year ending December 31, 1998.

<TABLE>

<CAPTION>

Mutual Discovery Securities Fund	Mutual Shares Securities Fund	Natural Resources Fund	Templeton International Equity Fund	Templeton International Smaller Companies Fund	Templeton Pacific Growth Fund	U.S. Government Securities Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$89,797	\$44,408	\$2,975,651	\$1,482,029	\$8,793	\$49,814	\$49,790

</TABLE>

At December 31, 1997, the net unrealized appreciation (depreciation) based on the cost of investments for income tax purposes were as follows:

<TABLE>

<CAPTION>

	Capital Growth Fund	Growth and Income Fund	High Income Fund	Income Securities Fund	Mutual Discovery Securities Fund
<S>	<C>	<C>	<C>	<C>	<C>
Investments at cost	\$95,511,124	\$1,025,509,034	\$467,193,247	\$1,224,819,688	\$184,795,464
Unrealized appreciation	16,189,770	315,546,114	28,533,114	212,978,533	17,862,627
Unrealized depreciation	(3,041,739)	(11,233,748)	(7,560,918)	(47,050,114)	(7,623,634)
Net unrealized appreciation	\$13,148,031	\$ 304,312,366	\$ 20,972,196	\$ 165,928,419	\$ 10,238,993

	Mutual Shares Securities Fund	Natural Resources Fund	Real Estate Securities Fund	Rising Dividends Fund	Small Cap Fund	Templeton Developing Markets Equity Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investments at cost	\$364,625,175	\$84,522,086	\$324,003,640	\$544,447,532	\$290,941,949	\$320,534,036
Unrealized appreciation	36,289,971	5,014,724	132,762,871	241,277,868	50,477,243	62,689,127
Unrealized depreciation	(11,480,184)	(13,545,075)	(2,462,740)	(11,079,310)	(25,957,208)	(105,767,897)
Net unrealized appreciation (depreciation) ..	\$ 24,809,787	\$ (8,530,351)	\$130,300,131	\$230,198,558	\$ 24,520,035	\$ (43,078,770)

	Templeton Global Asset Allocation Fund	Templeton Global Growth Fund	Templeton Global Income Securities Fund	Templeton International Equity Fund	Templeton International Smaller Companies Fund	Templeton Pacific Growth Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investments at cost	\$86,686,299	\$678,229,520	\$182,489,096	\$998,484,560	\$33,347,801	\$238,877,023
Unrealized appreciation	12,093,267	148,317,069	1,652,651	235,186,887	3,071,062	15,316,223
Unrealized depreciation	(6,033,158)	(69,340,410)	(5,006,405)	(76,505,374)	(4,348,791)	(90,686,437)
Net unrealized appreciation (depreciation) ..	\$ 6,060,109	\$ 78,976,659	\$ (3,353,754)	\$158,681,513	\$ (1,277,729)	\$ (75,370,214)

	US Government Securities Fund	Utility Equity Fund	Zero Coupon Fund - 2000	Zero Coupon Fund - 2005	Zero Coupon Fund - 2010
<S>	<C>	<C>	<C>	<C>	<C>
Investments at cost	\$756,956,822	\$938,873,383	\$105,580,702	\$68,342,861	\$70,157,903
Unrealized appreciation	26,607,574	237,376,254	6,160,727	9,144,852	15,709,056
Unrealized depreciation	(924,556)	(33,950,836)	(41,319)	(48,363)	--
Net unrealized appreciation	\$ 25,683,018	\$203,425,418	\$ 6,119,408	\$ 9,096,489	\$15,709,056

</TABLE>

4. INCOME TAXES (cont.)

At December 31, 1997, the Funds had tax basis capital losses which may be carried over to offset future capital gains. Such losses expire as follows:

<TABLE>

<CAPTION>

Capital loss carryovers expiring in:	Capital Growth Fund	Money Market Fund	Natural Resources Fund	Templeton Global Income Securities Fund	U.S. Government Securities Fund
<S>	<C>	<C>	<C>	<C>	<C>
2000	\$ --	\$ 418	\$--	\$--	\$--
2001	--	523	--	--	--
2002	--	7,568	--	--	14,556,689
2003	--	--	--	3,177,046	826,481
2004	52,275	--	146,066	--	--
2005	72,043	--	3,313,056	--	117,217
	\$124,318	\$8,509	\$3,459,122	\$3,177,046	\$15,500,387

</TABLE>

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions and passive foreign investment company shares.

Net realized capital gains (losses) differ for financial statement and tax purposes primarily due to differing treatments of wash sales, foreign currency transactions and passive foreign investment company shares.

5. INVESTMENT TRANSACTIONS

Purchases and sales of securities (excluding short-term securities) for the year ended December 31, 1997 were as follows:

	Capital Growth Fund	Growth and Income Fund	High Income Fund	Income Securities Fund	Mutual Discovery Securities Fund	Mutual Shares Securities Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Purchases	\$53,313,651	\$414,215,808	\$181,050,190	\$190,117,572	\$194,371,303	\$328,584,654
Sales	\$12,529,762	\$432,694,455	\$158,999,308	\$246,716,352	\$ 51,699,659	\$ 76,226,746
	Natural Resources Fund	Real Estate Securities Fund	Rising Dividends Fund	Small Cap Fund	Templeton Developing Markets Equity Fund	Templeton Global Asset Allocation Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Purchases	\$75,994,137	\$112,311,261	\$248,171,154	\$240,959,022	\$144,803,070	\$70,509,868
Sales	\$90,416,734	\$ 42,363,479	\$250,457,133	\$150,179,483	\$100,117,840	\$41,707,470
	Templeton Global Growth Fund	Templeton Global Income Securities Fund	Templeton International Equity Fund	Templeton International Smaller Companies Fund	Templeton Pacific Growth Fund	U.S. Government Securities Fund
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Purchases	\$213,511,561	\$335,843,030	\$276,913,365	\$25,746,255	\$ 32,727,397	\$129,256,468
Sales	\$150,419,188	\$352,329,328	\$426,441,780	\$ 4,470,071	\$112,719,806	\$237,707,776
			Utility Equity Fund	Zero Coupon Fund - 2000	Zero Coupon Fund - 2005	Zero Coupon Fund - 2010
<S>			<C>	<C>	<C>	<C>
Purchases			\$181,219,988	\$ 7,386,810	\$ 3,520,500	\$ 9,571,090
Sales			\$484,923,207	\$33,868,007	\$17,256,706	\$15,909,091

</TABLE>

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Each of the Funds listed below has been a party to financial instruments with off-balance-sheet risk, primarily forward exchange contracts, in order to minimize the impact on the Funds from adverse changes in the relationship between the U.S. dollar and foreign currencies and interest rates. These instruments involve market risk in excess of the amount recognized on the Statement of Assets and Liabilities. Some of these risks have been minimized by offsetting contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts, future movement in currency values and interest rates and contract positions that are not exact offsets. The contract amount indicates the extent of the Funds' involvement in such contracts.

A forward exchange contract is an agreement between two parties to exchange different currencies at a specific rate at an agreed future date. At December 31, 1997, the Funds have outstanding forward exchange contracts for the sale or purchase of currencies as set out below. The contracts are reported in the financial statements at the Funds' net equity, as measured by the difference between the forward exchange rates at the reporting date and the forward exchange rates at the day of entry into the contract.

Mutual Discovery Securities Fund

<TABLE>
<CAPTION>

	Contracts to Sell (Foreign exchange currency)	In Exchange for	Settlement Date	Unrealized Gain (Loss)
<S>	<C>	<C>	<C>	<C>
1,218,798	Australian Dollar.....	U.S. \$ 863,610	2/06/98	\$ 68,595
41,039,048	Belgium Franc	1,159,295	2/09/98	51,400
6,570,885	British Pound	10,929,390	1/20/98	148,493
995,103	British Pound	1,682,719	2/17/98	52,199
1,851,590	Canadian Dollar	1,349,129	2/27/98	51,064
21,153,939	Danish Krone	3,128,841	1/26/98	37,230
3,351,757	Dutch Guilder	1,704,313	3/17/98	43,575
4,227,511	Dutch Guilder	2,122,244	6/10/98	17,544
18,330,699	Finnish Markka	3,428,767	3/03/98	51,905
16,184,931	French Franc	2,787,011	4/17/98	81,503
13,506,223	French Franc	2,329,138	2/17/98	78,727
6,276,784	French Franc	1,059,493	2/27/98	13,070
6,057,828	French Franc	1,020,960	6/11/98	5,280
1,710,297	German Mark	964,787	3/18/98	9,839
3,165,367,394	Italian Lira	1,800,141	7/02/98	8,973
1,950,000	New Zealand Dollar.....	1,212,900	2/17/98	85,024
2,529,410	Norwegian Krone	352,256	3/09/98	7,929
1,245,225	Norwegian Krone	172,612	3/10/98	3,092
49,419,666	Spanish Peseta	329,062	2/18/98	4,270
1,075,344	Swedish Krona	142,524	1/21/98	7,006
55,360,775	Swedish Krona	7,379,370	3/18/98	392,366

3,051,782	Swiss Franc	2,153,047	6/10/98	26,444
9,116,335	Swedish Krona	1,185,309	5/15/98	33,333

	Contracts to Buy (Foreign exchange currency)	U.S.\$49,256,918		\$1,278,861
4,500,000	Hong Kong Dollar.....	U.S. \$ 576,960	1/14/98	\$ 3,411
	Net unrealized gain on offsetting forward foreign currency contracts			72,895

	Unrealized gain on forward foreign currency contracts			\$1,355,167
				=====

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (cont.)

Mutual Discovery Securities Fund (cont.)

		In	Settlement Date	Unrealized
	Contracts to Sell (Foreign exchange currency)	Exchange for		Gain (Loss)
1,773,227	British Pound	U.S.\$ 2,860,215	1/20/98	\$ (49,131)
1,057,341	British Pound	1,674,723	3/18/98	(55,246)
301,000	Canadian Dollar	210,108	2/27/98	(910)
1,523,517	French Franc	249,075	1/20/98	(4,367)
22,048,393	French Franc	3,663,201	2/27/98	(12,560)
5,905,464	Hong Kong Dollar	760,181	1/14/98	(1,454)
19,795,842	Norwegian Krone	2,684,546	3/10/98	(10,392)
91,016,871	Spanish Peseta	584,810	2/18/98	(13,365)
5,610,413	Swedish Krona	701,523	1/21/98	(5,520)
		-----		-----
		U.S.\$13,388,382		\$ (152,945)
	Contracts to Buy (Foreign exchange currency)			
18,000,000	Belgium Franc	U.S. \$ 505,618	2/09/98	\$ (19,688)
1,437,029	German Mark	811,582	3/18/98	(9,214)
500,000	New Zealand Dollar	312,650	2/17/98	(23,451)
5,644,361	Swedish Krona	735,645	1/21/98	(24,323)
		-----		-----
		U.S.\$ 2,365,495		(76,676)
	Unrealized loss on forward foreign currency contracts			(229,621)

	Net unrealized gain on forward foreign currency contracts			\$1,125,546
				=====

Mutual Shares Securities Fund

		In	Settlement Date	Unrealized
	Contracts to Sell (Foreign exchange currency)	Exchange for		Gain (Loss)
7,885,890	British Pound	U.S.\$13,131,664	1/20/98	\$ 193,229
1,080,604	British Pound	1,827,301	2/17/98	56,684
4,939,902	Dutch Guilder	2,503,944	3/17/98	56,308
1,907,788	Dutch Guilder	957,725	6/10/98	7,917
15,194,102	French Franc	2,631,394	2/17/98	99,748
12,674,052	French Franc	2,180,088	4/17/98	61,466
17,534,756	French Franc	2,984,995	6/11/98	45,048
984,084,375	Italian Lira	559,648	7/02/98	2,790
6,611,554	Norwegian Krone	909,025	3/09/98	8,997
33,400,385	Swedish Krona	4,299,779	1/21/98	90,550
29,230,434	Swedish Krona	3,896,300	3/18/98	207,169
		-----		-----
		U.S.\$35,881,863		829,906
	Net unrealized gain on offsetting forward foreign currency contracts			2,693

	Unrealized gain on forward foreign currency contracts			\$ 832,599
				=====
	Contracts to Sell (Foreign exchange currency)			
1,084,524	British Pound	U.S.\$ 1,717,777	3/18/98	\$ (56,666)
15,390,000	French Franc	2,498,377	1/20/98	(61,802)
5,833,762	French Franc	970,030	2/27/98	(2,536)
2,936,392	Norwegian Krone	398,209	3/10/98	(1,541)
		-----		-----
		U.S.\$ 5,584,393		\$ (122,545)
	Contracts to Buy (Foreign exchange currency)			
3,242,429	French Franc	U.S. \$ 562,755	1/20/98	\$ (23,366)

	Unrealized loss on forward foreign currency contracts			(145,911)

	Net unrealized gain on forward foreign currency contracts			\$ 686,688
				=====

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (cont.)

Templeton Global Asset Allocation Fund

		In	Settlement Date	Unrealized
	Contracts to Sell (Foreign exchange currency)	Exchange for		Gain (Loss)
858,000	Australian Dollar	U.S. \$ 591,162	1/30/98	\$ 31,574
173,000	New Zealand Dollar	106,879	1/12/98	6,537
173,000	New Zealand Dollar	102,589	2/17/98	2,526
2,430,000	German Mark	1,379,036	1/16/98	26,967

202,000	Australian Dollar	132,795	1/20/98	1,081
497,500	German Mark	281,077	1/20/98	4,196
1,492,000	German Mark	839,830	1/21/98	9,139
152,000	Australian Dollar	99,227	1/21/98	113
86,500	New Zealand Dollar	50,499	1/22/98	373
101,000	Australian Dollar	66,801	1/22/98	941
995,000	German Mark	562,147	1/23/98	8,285
		-----		-----
		U.S.\$ 4,212,042		91,732
Net unrealized gain on offsetting forward foreign currency contracts				10,517

Unrealized gain on forward foreign currency contracts				\$ 102,249
				=====
	Contracts to Sell (Foreign exchange currency)			
86,500	New Zealand Dollar	U.S. \$ 49,828	1/21/98	\$ (302)
Contracts to buy (Foreign exchange currency)				
202,000	Australian Dollar	U.S. \$ 134,078	1/30/98	\$ (2,333)

Unrealized loss on forward foreign currency contracts				(2,635)

Net unrealized gain on forward foreign currency contracts				\$ 99,614
				=====

Templeton Global Income Fund

		In	Settlement Date	Unrealized
		Exchange for		Gain (Loss)
	Contracts to Sell (Foreign exchange currency)			
1,745,000	Australian Dollar	U.S.\$ 1,147,163	1/20/98	\$ 9,335
1,308,000	Australian Dollar	853,875	1/21/98	974
872,500	Australian Dollar	577,072	1/22/98	8,131
7,423,000	Australian Dollar	5,114,447	1/30/98	273,160
21,320,000	German Mark	12,099,200	1/16/98	236,601
4,325,000	German Mark	2,443,530	1/20/98	36,482
8,650,000	German Mark	4,851,374	1/21/98	36,984
4,325,000	German Mark	2,449,662	1/21/98	42,467
8,650,000	German Mark	4,887,006	1/23/98	72,028
1,714,000	New Zealand Dollar	1,058,909	1/12/98	64,762
857,000	New Zealand Dollar	500,317	1/22/98	3,694
1,714,000	New Zealand Dollar	1,016,402	2/17/98	25,028
		-----		-----
		U.S. \$36,998,957		809,646
Net unrealized gain on offsetting forward foreign currency contracts				403,008

Unrealized gain on forward foreign currency contracts				\$1,212,654
				=====

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (cont.)

Templeton Global Income Fund (cont.)

		In	Settlement Date	Unrealized
		Exchange for		Gain (Loss)
	Contracts to Sell (Foreign exchange currency)			
857,000	New Zealand Dollar	U.S. \$ 493,675	1/21/98	\$ (2,992)
Contracts to Buy (Foreign exchange currency)				
1,745,000	Australian Dollar	U.S.\$ 1,158,244	1/30/98	\$ (20,153)
Net unrealized loss on offsetting forward foreign currency contracts				(311,580)
Unrealized loss on forward foreign currency contracts				(334,725)

Net unrealized gain on forward foreign currency contracts				\$ 877,929
				=====

</TABLE>

7. CREDIT RISK AND DEFAULTED SECURITIES

The High Income Fund and the Income Securities Fund have 93.5% and 37.2%, respectively, of their portfolios invested in lower rated and comparable quality unrated high yield securities, which tend to be more sensitive to economic conditions than higher rated securities. The risk of loss due to default by the issuer may be significantly greater for the holders of high yielding securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer. At December 31, 1997 the Income Securities Fund held defaulted security with a value of \$1,650,000 representing .1% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

For financial reporting purposes, the Funds discontinue accruing income on defaulted bonds and provide an estimate for losses on interest receivable.

The High Income Fund has investments in excess of 10% of their total net assets in the Wireless Communication industry. Such concentration may subject the Fund more significantly to economic changes occurring within that industry.

8. RESTRICTED SECURITIES

The Funds may purchase securities through a private offering that generally cannot be sold to the public without prior registration under the Securities Act of 1933. The costs of registering such securities are paid by the issuer. Restricted securities held at December 31, 1997 are as follows:

<TABLE>
<CAPTION>

Quantity	Issuer	Acquisition Date	Cost	Value
Income Securities Fund				
<S>	<C>	<C>	<C>	<C>
419,424	Bibb Co.	3/30/93 - 9/27/96	\$6,112,066	\$ 3,512,676
\$160,000	CMS Energy Corp., 7.75% quarterly cvt. pfd.	6/18/97	8,000,000	10,367,730
Total Restricted Securities (0.99% of Net Assets)				\$13,880,406
Real Estate Securities Fund				
866,067	Pacific Retail Trust (2.56% Net Assets)	8/30/96 - 4/30/97	\$9,841,261	\$11,258,871
Utility Equity Fund				
\$175,000	CMS Energy Corp., 7.75%, quarterly cvt. Pfd. (1.00% of Net Assets) ...	6/18/97	\$8,750,000	\$11,339,701

8. RESTRICTED SECURITIES (cont.)

Quantity	Issuer	Acquisition Date	Value
Mutual Discovery Securities Fund			
<S>	<C>	<C>	<C>
272,449	RE Acquisition LLC	4/11/97	\$ 272,449
115,000	Laser Mortgage Management Inc.	11/26/97	1,667,500
515	Golden Ocean Group Ltd, wts	8/25/97	2,575
\$250,000	Golden Ocean Group Ltd., 10.00%, 8/31/01	8/25/97	205,000
Total Restricted Securities (0.01% of Net Assets)			\$ 2,147,524
Mutual Shares Securities Fund			
220,000	Laser Mortgage Management Inc.	11/26/97	\$ 3,190,000
935	Golden Ocean Group Ltd, wts	8/25/97	4,675
\$450,000	Golden Ocean Group Ltd., 10.00%, 8/31/01.....	8/25/97	369,000
Total Restricted Securities (0.09% of Net Assets)			\$ 3,563,675

</TABLE>
9. LENDING OF PORTFOLIO SECURITIES

The Income Securities Fund, the Natural Resources Fund, the Real Estate Securities Fund, the Small Cap Fund, and the Utility Equity Fund loan securities to certain brokers for which it receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Net interest income from the investment of the cash collateral received and the value of the loaned securities at December 31, 1997 were as follows:

<TABLE>
<CAPTION>

	Income Securities Fund	Natural Resources Fund	Real Estate Securities Fund	Small Cap Fund	Utility Equity Fund
<S>	<C>	<C>	<C>	<C>	<C>
Interest income	\$ 8,189	\$ 4,428	\$ 161,287	\$ 110,873	\$ 33,855
Value of loaned securities	\$521,375	\$519,638	\$15,121,695	\$5,756,505	\$13,567,125

</TABLE>
10. OTHER CONSIDERATIONS

Advisers, as the manager for the Income Securities Fund, may serve as a member of various credit committees, representing credit interests in certain corporate restructuring negotiations. Currently, Advisers serves on the credit committees for Harvard Industries, Inc. As a result of this involvement, Advisers may be in possession of certain material non-public information. Advisers has not nor does it intend to sell any of its holdings in these securities while in possession of this information.

FRANKLIN VALUEMARK FUNDS
Report of Independent Accountants

To the Shareholders and Board of Trustees
of Franklin Valuemark Funds:

We have audited the accompanying statements of assets and liabilities of each of the twenty-three Funds comprising the Franklin Valuemark Funds including each Fund's statement of investments, as of December 31, 1997, and the related

statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1997, by correspondence with the custodians and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the Funds comprising the Franklin Valuemark Funds, as of December 31, 1997, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and their financial highlights for each of the periods presented, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

San Francisco, California

February 3, 1998

Franklin Valuemark Funds Annual Report December 31, 1997.

APPENDIX

DESCRIPTION OF GRAPHIC MATERIAL OMITTED FROM EDGAR FILING (PURSUANT TO ITEM 304 (a) OF REGULATION S-T)

GRAPHIC MATERIAL (1)

The following line graph hypothetically compares the performance of the Capital Growth Fund to that of the S&P 500 and Russell 1000 Index, based on a \$10,000 investment from 5/1/96 to 12/31/97.

	Capital Growth Fund	S&P500	Russell 1000
5/1/96	\$10,000	\$10,000	\$10,000
5/31/96	\$10,220	\$10,258	\$10,240
6/30/96	\$10,180	\$10,297	\$10,251
7/31/96	\$ 9,790	\$ 9,842	\$ 9,757
8/31/96	\$10,180	\$10,050	\$10,023
9/30/96	\$10,910	\$10,615	\$10,586
10/31/96	\$10,880	\$10,908	\$10,820
11/30/96	\$11,750	\$11,733	\$11,618
12/31/96	\$11,360	\$11,501	\$11,430
1/31/97	\$11,910	\$12,219	\$12,108
2/28/97	\$11,470	\$12,315	\$12,154
3/31/97	\$10,870	\$11,809	\$11,607
4/30/97	\$11,290	\$12,514	\$12,235
5/31/97	\$12,270	\$13,276	\$13,018
6/30/97	\$12,479	\$13,870	\$13,557
7/31/97	\$13,290	\$14,974	\$14,666
8/31/97	\$12,959	\$14,136	\$13,974
9/30/97	\$13,740	\$14,911	\$14,739
10/31/97	\$13,099	\$14,413	\$14,262
11/30/97	\$13,320	\$15,080	\$14,881
12/31/97	\$13,440	\$15,339	\$15,183

GRAPHIC MATERIAL (2)

The following line graph hypothetically compares the performance of the Mutual Discovery Securities Fund to that of the S&P 500 and Russell 2000 Index, based on a \$10,000 investment from 11/8/96 to 12/31/97.

	Mutual Discovery Securities	S&P500	Russell 2000
11/8/96	\$10,000	\$10,000	\$10,000
11/30/96	\$10,130	\$10,554	\$10,302
12/31/96	\$10,200	\$10,345	\$10,572
1/31/97	\$10,660	\$10,992	\$10,783
2/28/97	\$10,790	\$11,078	\$10,523
3/31/97	\$10,690	\$10,622	\$10,026

4/30/97	\$10,630	\$11,257	\$10,054
5/31/97	\$10,910	\$11,942	\$11,172
6/30/97	\$11,325	\$12,477	\$11,651
7/31/97	\$11,735	\$13,470	\$12,193
8/31/97	\$11,715	\$12,716	\$12,472
9/30/97	\$12,356	\$13,413	\$13,385
10/31/97	\$11,975	\$12,965	\$12,798
11/30/97	\$12,025	\$13,565	\$12,714
12/31/97	\$12,175	\$13,798	\$12,937

GRAPHIC MATERIAL (3)

This chart shows in pie format the Natural Resources Securities Fund's sector breakdown on December 31, 1997, based on total net assets.

Energy	53.3%
Gold & Precious Metals	19.9%
Chemicals	7.7%
REITs	4.0%
Steel	3.5%
Paper & Forest Products	2.4%
Service/Related Industries	2.2%
Base Metals	1.7%
Cash & Equivalents	5.3%

GRAPHIC MATERIAL (4)

The following line graph hypothetically compares the performance of the Natural Resources Securities Fund to that of the S&P 500 and FT/S&P Actuaries World (Energy 50%/Basic Industries 50%) Composite Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Natural Resources Securities Fund	S&P 500	FT/S&P Actuaries World: Energy 50% / Basic Industries 50% Composite Index
01/24/89	\$10,000	\$ 10,000	\$ 10,000
01/31/89	\$10,020	\$ 10,165	\$ 10,114
02/28/89	\$10,080	\$ 9,912	\$ 10,247
03/31/89	\$10,150	\$ 10,143	\$ 10,553
04/30/89	\$10,220	\$ 10,670	\$ 10,698
05/31/89	\$10,090	\$ 11,102	\$ 10,298
06/30/89	\$10,360	\$ 11,038	\$ 10,079
07/31/89	\$10,500	\$ 12,035	\$ 10,937
08/31/89	\$10,750	\$ 12,271	\$ 10,710
09/30/89	\$11,110	\$ 12,221	\$ 10,961
10/31/89	\$11,180	\$ 11,937	\$ 10,774
11/30/89	\$12,230	\$ 12,181	\$ 11,276
12/31/89	\$12,430	\$ 12,473	\$ 11,869
01/31/90	\$12,920	\$ 11,636	\$ 11,489
02/28/90	\$12,180	\$ 11,786	\$ 11,209
03/31/90	\$12,038	\$ 12,099	\$ 10,547
04/30/90	\$11,258	\$ 11,797	\$ 10,297
05/31/90	\$11,947	\$ 12,948	\$ 11,287
06/30/90	\$11,380	\$ 12,861	\$ 11,083
07/31/90	\$12,038	\$ 12,820	\$ 11,812
08/31/90	\$11,694	\$ 11,661	\$ 11,021
09/30/90	\$11,501	\$ 11,093	\$ 10,082
10/31/90	\$10,448	\$ 11,045	\$ 10,669
11/30/90	\$10,185	\$ 11,759	\$ 10,360
12/31/90	\$10,651	\$ 12,087	\$ 10,419
01/31/91	\$9,831	\$ 12,614	\$ 10,397
02/28/91	\$10,701	\$ 13,516	\$ 11,592
03/31/91	\$10,610	\$ 13,843	\$ 11,174
04/30/91	\$10,560	\$ 13,876	\$ 11,391
05/31/91	\$10,853	\$ 14,474	\$ 11,435
06/30/91	\$11,258	\$ 13,811	\$ 10,847
07/31/91	\$11,382	\$ 14,455	\$ 11,388
08/31/91	\$10,814	\$ 14,797	\$ 11,278
09/30/91	\$10,834	\$ 14,550	\$ 11,586
10/31/91	\$11,227	\$ 14,745	\$ 11,828
11/30/91	\$11,361	\$ 14,151	\$ 11,009
12/31/91	\$10,617	\$ 15,770	\$ 11,468
01/31/92	\$11,340	\$ 15,476	\$ 11,242
02/29/92	\$11,165	\$ 15,676	\$ 10,982
03/31/92	\$10,752	\$ 15,370	\$ 10,584
04/30/92	\$10,607	\$ 15,822	\$ 11,099
05/31/92	\$11,123	\$ 15,900	\$ 11,627
06/30/92	\$11,407	\$ 15,663	\$ 11,098
07/31/92	\$11,492	\$ 16,303	\$ 11,038
08/31/92	\$11,120	\$ 15,969	\$ 11,260
09/30/92	\$10,982	\$ 16,156	\$ 11,164
10/31/92	\$10,313	\$ 16,211	\$ 10,600
11/30/92	\$9,612	\$ 16,762	\$ 10,512
12/31/92	\$9,941	\$ 16,968	\$ 10,616
01/31/93	\$9,867	\$ 17,111	\$ 10,679
02/28/93	\$10,355	\$ 17,344	\$ 11,122

03/31/93	\$11,343	\$ 17,710	\$ 11,834
04/30/93	\$12,108	\$ 17,281	\$ 12,523
05/31/93	\$13,658	\$ 17,742	\$ 12,796
06/30/93	\$13,737	\$ 17,794	\$ 12,490
07/31/93	\$14,957	\$ 17,723	\$ 12,800
08/31/93	\$13,823	\$ 18,394	\$ 13,277
09/30/93	\$12,689	\$ 18,253	\$ 13,010
10/31/93	\$13,887	\$ 18,631	\$ 13,234
11/30/93	\$13,769	\$ 18,454	\$ 12,481
12/31/93	\$15,471	\$ 18,677	\$ 13,048
01/31/94	\$15,578	\$ 19,312	\$ 14,054
02/28/94	\$14,925	\$ 18,789	\$ 13,836
03/31/94	\$15,096	\$ 17,969	\$ 13,351
04/30/94	\$14,390	\$ 18,199	\$ 14,044
05/31/94	\$14,861	\$ 18,498	\$ 14,085
06/30/94	\$14,559	\$ 18,045	\$ 14,034
07/31/94	\$14,839	\$ 18,637	\$ 14,571
08/31/94	\$15,495	\$ 19,401	\$ 14,964
09/30/94	\$16,508	\$ 18,927	\$ 14,687
10/31/94	\$15,915	\$ 19,353	\$ 15,332
11/30/94	\$14,645	\$ 18,649	\$ 14,452
12/31/94	\$15,172	\$ 18,925	\$ 14,449
01/31/95	\$13,385	\$ 19,415	\$ 14,268
02/28/95	\$13,988	\$ 20,172	\$ 14,381
03/31/95	\$15,291	\$ 20,767	\$ 15,135
04/30/95	\$15,442	\$ 21,378	\$ 15,775
05/31/95	\$15,334	\$ 22,233	\$ 15,759
06/30/95	\$15,319	\$ 22,748	\$ 15,427
07/31/95	\$15,815	\$ 23,504	\$ 16,178
08/31/95	\$15,716	\$ 23,563	\$ 15,699
09/30/95	\$15,782	\$ 24,557	\$ 15,872
10/31/95	\$14,018	\$ 24,468	\$ 15,540
11/30/95	\$15,242	\$ 25,543	\$ 16,082
12/31/95	\$15,529	\$ 26,036	\$ 16,682
1/31/96	\$18,098	\$ 26,921	\$ 16,992
2/29/96	\$18,231	\$ 27,171	\$ 17,108
3/31/96	\$18,319	\$ 27,432	\$ 17,820
4/30/96	\$18,418	\$ 27,835	\$ 18,299
5/31/96	\$19,124	\$ 28,553	\$ 18,222
6/30/96	\$16,862	\$ 28,662	\$ 18,169
7/31/96	\$16,512	\$ 27,395	\$ 17,562
8/31/96	\$17,144	\$ 27,973	\$ 17,893
9/30/96	\$16,184	\$ 29,548	\$ 18,444
10/31/96	\$16,297	\$ 30,363	\$ 18,835
11/30/96	\$16,150	\$ 32,659	\$ 19,505
12/31/96	\$16,150	\$ 32,012	\$ 19,408
1/31/97	\$15,347	\$ 34,013	\$ 19,509
2/28/97	\$17,099	\$ 34,278	\$ 19,358
3/31/97	\$15,314	\$ 32,870	\$ 19,629
4/30/97	\$14,466	\$ 34,832	\$ 19,631
5/31/97	\$15,359	\$ 36,953	\$ 20,768
6/30/97	\$14,771	\$ 38,609	\$ 21,499
7/31/97	\$14,828	\$ 41,682	\$ 22,271
8/31/97	\$15,104	\$ 39,348	\$ 21,240
9/30/97	\$16,113	\$ 41,504	\$ 22,136
10/31/97	\$14,817	\$ 40,118	\$ 20,815
11/30/97	\$13,154	\$ 41,975	\$ 20,063
12/31/97	\$13,085	\$ 42,697	\$ 19,688

GRAPHIC MATERIAL (5)

The following line graph hypothetically compares the performance of the Small Cap Fund to that of the S&P 500 and Russell 2500 Index, based on a \$10,000 investment from 11/1/95 to 12/31/97.

	Small Cap Fund	S&P500	Russell 2500
11/1/95	\$10,000	\$10,000	\$10,000
11/30/95	\$ 9,700	\$10,439	\$10,427
12/31/95	\$10,230	\$10,640	\$10,605
1/31/96	\$10,370	\$11,002	\$10,681
2/29/96	\$10,850	\$11,105	\$11,002
3/31/96	\$11,140	\$11,211	\$11,227
4/30/96	\$12,250	\$11,376	\$11,745
5/31/96	\$12,760	\$11,669	\$12,063
6/30/96	\$12,154	\$11,714	\$11,693
7/31/96	\$11,054	\$11,196	\$10,837
8/31/96	\$12,114	\$11,432	\$11,460
9/30/96	\$12,654	\$12,076	\$11,957
10/31/96	\$12,404	\$12,409	\$11,878
11/30/96	\$12,964	\$13,347	\$12,451
12/31/96	\$13,204	\$13,083	\$12,622
1/31/97	\$13,494	\$13,901	\$12,970
2/28/97	\$12,864	\$14,009	\$12,777
3/31/97	\$11,954	\$13,433	\$12,198
4/30/97	\$12,034	\$14,235	\$12,353
5/31/97	\$13,744	\$15,102	\$13,491

6/30/97	\$14,269	\$15,779	\$14,043
7/31/97	\$15,175	\$17,035	\$14,866
8/31/97	\$15,330	\$16,081	\$15,072
9/30/97	\$16,813	\$16,962	\$16,058
10/31/97	\$16,103	\$16,396	\$15,337
11/30/97	\$15,721	\$17,155	\$15,406
12/31/97	\$15,504	\$17,450	\$15,697

GRAPHIC MATERIAL (6)

This chart shows in pie format the Templeton Developing Market Equity Fund's geographic distribution on December 31, 1997, based on total net assets.

Asia	37.3%
Latin America	36.8%
Europe	10.5%
Mid-East/Africa	5.3%
Short-Term & Other Net Assets	10.1%

GRAPHIC MATERIAL (7)

The following line graph hypothetically compares the performance of the Templeton Developing Markets Equity Fund to that of the MSCI World Index and IFC Investable Composite Index, based on a \$10,000 investment from 3/15/94 to 12/31/97.

	FVF Templeton Developing Markets Equity Portfolio	MSCI World Index	IFC Investable Composite Index
INCEPT	\$10,000	\$10,000	\$10,000
Mar-94	\$10,000	\$ 9,774	\$ 9,452
Apr-94	\$10,060	\$10,078	\$ 9,272
May-94	\$10,040	\$10,105	\$ 9,491
Jun-94	\$ 9,990	\$10,079	\$ 9,154
Jul-94	\$10,250	\$10,272	\$ 9,811
Aug-94	\$10,530	\$10,583	\$11,073
Sep-94	\$10,520	\$10,307	\$11,347
Oct-94	\$10,410	\$10,602	\$10,972
Nov-94	\$10,000	\$10,144	\$10,551
Dec-94	\$ 9,560	\$10,245	\$ 9,434
Jan-95	\$ 8,910	\$10,093	\$ 8,173
Feb-95	\$ 8,780	\$10,242	\$ 8,067
Mar-95	\$ 9,150	\$10,737	\$ 8,052
Apr-95	\$ 9,540	\$11,114	\$ 8,385
May-95	\$ 9,800	\$11,211	\$ 8,698
Jun-95	\$ 9,855	\$11,210	\$ 8,749
Jul-95	\$10,438	\$11,773	\$ 9,028
Aug-95	\$10,167	\$11,513	\$ 8,786
Sep-95	\$10,096	\$11,850	\$ 8,722
Oct-95	\$ 9,735	\$11,666	\$ 8,391
Nov-95	\$ 9,664	\$12,073	\$ 8,349
Dec-95	\$ 9,825	\$12,428	\$ 8,639
Jan-96	\$10,880	\$12,655	\$ 9,375
Feb-96	\$10,659	\$12,734	\$ 9,156
Mar-96	\$10,860	\$12,949	\$ 9,290
Apr-96	\$11,222	\$13,255	\$ 9,662
May-96	\$11,382	\$13,269	\$ 9,580
Jun-96	\$11,390	\$13,339	\$ 9,692
Jul-96	\$10,782	\$12,870	\$ 9,056
Aug-96	\$10,957	\$13,021	\$ 9,336
Sep-96	\$11,194	\$13,533	\$ 9,474
Oct-96	\$11,184	\$13,629	\$ 9,271
Nov-96	\$11,617	\$14,396	\$ 9,408
Dec-96	\$11,947	\$14,168	\$ 9,449
Jan-97	\$12,833	\$14,340	\$10,117
Feb-97	\$13,214	\$14,508	\$10,611
Mar-97	\$12,957	\$14,224	\$10,350
Apr-97	\$13,101	\$14,691	\$10,174
May-97	\$13,730	\$15,601	\$10,519
Jun-97	\$14,275	\$16,381	\$10,974
Jul-97	\$14,826	\$17,138	\$11,084
Aug-97	\$13,449	\$15,994	\$ 9,669
Sep-97	\$14,243	\$16,865	\$ 9,985
Oct-97	\$11,573	\$15,980	\$ 8,343
Nov-97	\$10,958	\$16,266	\$ 7,943
Dec-97	\$10,905	\$16,466	\$ 8,047

GRAPHIC MATERIAL (8)

This chart shows in pie format the Templeton Global Growth Fund's geographic distribution on December 31, 1997, based on total net assets.

Europe	39.1%
North America	25.3%

Asia	8.9%
Latin America	7.7%
Australia/New Zealand	4.5%
Mid-East/Africa	0.7%
Short-Term & Other Net Assets	13.8%

GRAPHIC MATERIAL (9)

The following line graph hypothetically compares the performance of the Templeton Global Growth Fund to that of the MSCI World Index, based on a \$10,000 investment from 3/15/94 to 12/31/97.

	Templeton Global Growth Fund	MSCI World Index
3/15/94	\$10,000	\$10,000
3/31/94	\$10,030	\$ 9,774
4/30/94	\$10,079	\$10,077
5/31/94	\$10,118	\$10,105
6/30/94	\$10,020	\$10,079
7/31/94	\$10,295	\$10,272
8/31/94	\$10,551	\$10,583
9/30/94	\$10,482	\$10,307
10/31/94	\$10,492	\$10,602
11/30/94	\$10,285	\$10,144
12/31/94	\$10,315	\$10,245
1/31/95	\$10,226	\$10,093
2/28/95	\$10,335	\$10,242
3/31/95	\$10,335	\$10,737
4/30/95	\$10,630	\$11,114
5/31/95	\$10,896	\$11,211
6/30/95	\$11,053	\$11,209
7/31/95	\$11,498	\$11,773
8/31/95	\$11,399	\$11,512
9/30/95	\$11,617	\$11,850
10/31/95	\$11,231	\$11,666
11/30/95	\$11,310	\$12,073
12/31/95	\$11,627	\$12,428
1/31/96	\$12,132	\$12,655
2/29/96	\$12,181	\$12,734
3/31/96	\$12,379	\$12,949
4/30/96	\$12,706	\$13,255
5/31/96	\$12,894	\$13,269
6/30/96	\$12,886	\$13,339
7/31/96	\$12,416	\$12,870
8/31/96	\$12,814	\$13,021
9/30/96	\$12,988	\$13,533
10/31/96	\$13,080	\$13,629
11/30/96	\$13,672	\$14,396
12/31/96	\$14,102	\$14,168
1/31/97	\$14,510	\$14,340
2/28/97	\$14,592	\$14,508
3/31/97	\$14,561	\$14,224
4/30/97	\$14,623	\$14,691
5/31/97	\$15,287	\$15,601
6/30/97	\$16,058	\$16,381
7/31/97	\$16,684	\$17,138
8/31/97	\$16,246	\$15,994
9/30/97	\$17,164	\$16,865
10/31/97	\$15,891	\$15,980
11/30/97	\$15,839	\$16,265
12/31/97	\$16,006	\$16,466

GRAPHIC MATERIAL (10)

This chart shows in pie format the Templeton International Equity Fund's geographic distribution on December 31, 1997, based on total net assets.

Europe	56.8%
Latin America	10.8%
Australia/New Zealand	4.0%
North America	3.6%
Asia	3.4%
Mid-East/Africa	0.8%
Short-Term & Other Net Assets	20.6%

GRAPHIC MATERIAL (11)

The following line graph hypothetically compares the performance of the Templeton International Equity Fund to that of the MSCI EAFE Index and MSCI All Country World ex-U.S. Free Index, based on a \$10,000 investment from 1/27/92 to 12/31/97.

	Templeton International Equity Fund	MSCI EAFE Index	MSCI AC World ex-U.S. Free Index
1/27/92	\$10,000	\$10,000	\$10,000
1/31/92	\$10,000	\$10,183	\$9,837
2/29/92	\$10,000	\$9,821	\$9,535

3/31/92	\$10,000	\$9,176	\$8,958
4/30/92	\$10,010	\$9,221	\$8,988
5/31/92	\$10,270	\$9,841	\$9,534
6/30/92	\$10,040	\$9,378	\$9,074
7/31/92	\$9,760	\$9,141	\$8,880
8/31/92	\$9,860	\$9,717	\$9,354
9/30/92	\$9,740	\$9,529	\$9,162
10/31/92	\$9,570	\$9,032	\$8,760
11/30/92	\$9,670	\$9,119	\$8,808
12/31/92	\$9,760	\$9,169	\$8,882
1/31/93	\$9,630	\$9,171	\$8,881
2/28/93	\$9,770	\$9,451	\$9,153
3/31/93	\$9,930	\$10,277	\$9,906
4/30/93	\$10,200	\$11,255	\$10,781
5/31/93	\$10,410	\$11,496	\$11,021
6/30/93	\$10,218	\$11,319	\$10,889
7/31/93	\$10,419	\$11,718	\$11,251
8/31/93	\$11,132	\$12,353	\$11,855
9/30/93	\$11,042	\$12,078	\$11,611
10/31/93	\$11,694	\$12,453	\$12,031
11/30/93	\$11,403	\$11,367	\$11,115
12/31/93	\$12,547	\$12,190	\$11,982
1/31/94	\$13,461	\$13,224	\$12,967
2/28/94	\$13,230	\$13,190	\$12,869
3/31/94	\$12,748	\$12,624	\$12,280
4/30/94	\$12,868	\$13,163	\$12,696
5/31/94	\$12,939	\$13,090	\$12,701
6/30/94	\$12,601	\$13,278	\$12,791
7/31/94	\$13,117	\$13,409	\$12,999
8/31/94	\$13,512	\$13,729	\$13,436
9/30/94	\$13,249	\$13,299	\$13,104
10/31/94	\$13,461	\$13,746	\$13,456
11/30/94	\$12,885	\$13,088	\$12,807
12/31/94	\$12,652	\$13,173	\$12,777
1/31/95	\$12,389	\$12,670	\$12,197
2/28/95	\$12,571	\$12,637	\$12,131
3/31/95	\$12,531	\$13,429	\$12,816
4/30/95	\$13,087	\$13,937	\$13,316
5/31/95	\$13,330	\$13,775	\$13,257
6/30/95	\$13,624	\$13,537	\$13,074
7/31/95	\$14,202	\$14,383	\$13,816
8/31/95	\$13,897	\$13,838	\$13,337
9/30/95	\$14,202	\$14,112	\$13,565
10/31/95	\$13,792	\$13,736	\$13,202
11/30/95	\$13,824	\$14,122	\$13,512
12/31/95	\$13,992	\$14,695	\$14,046
1/31/96	\$14,464	\$14,759	\$14,239
2/29/96	\$14,801	\$14,812	\$14,240
3/31/96	\$15,032	\$15,130	\$14,505
4/30/96	\$15,473	\$15,574	\$14,945
5/31/96	\$15,693	\$15,291	\$14,721
6/30/96	\$15,714	\$15,381	\$14,795
7/31/96	\$15,235	\$14,935	\$14,303
8/31/96	\$15,692	\$14,972	\$14,519
9/30/96	\$15,848	\$15,373	\$14,745
10/31/96	\$16,137	\$15,220	\$14,597
11/30/96	\$16,750	\$15,829	\$15,160
12/31/96	\$17,207	\$15,629	\$14,985
1/31/97	\$17,507	\$15,086	\$14,709
2/28/97	\$17,786	\$15,336	\$14,979
3/31/97	\$18,042	\$15,395	\$14,948
4/30/97	\$17,886	\$15,481	\$15,074
5/31/97	\$18,565	\$16,492	\$16,005
6/30/97	\$19,587	\$17,406	\$16,888
7/31/97	\$20,100	\$17,690	\$17,230
8/31/97	\$19,683	\$16,373	\$15,874
9/30/97	\$21,077	\$17,294	\$16,733
10/31/97	\$19,659	\$15,968	\$15,308
11/30/97	\$19,194	\$15,809	\$15,117
12/31/97	\$19,218	\$15,951	\$15,291

GRAPHIC MATERIAL (12)

This chart shows in pie format the Templeton International Smaller Companies Fund's geographic distribution on December 31, 1997, based on total net assets.

Europe	49.0%
Asia	18.3%
Latin America	8.8%
North America	5.6%
Mid-East/Africa	5.3%
Australia/New Zealand	4.6%
Short-Term & Other Net Assets	8.4%

GRAPHIC MATERIAL (13)

The following line graph hypothetically compares the performance of the Templeton International Smaller Companies Fund to that of the MSCI EAFE Index and Salomon World ex-U.S. Extended Market Index, based on a \$10,000 investment from 5/1/96 to 12/31/97.

	Templeton International Smaller Companies Fund	Sal. World ex-US EMI
INCEPT	\$10,000	\$10,000
May-96	\$10,150	\$9,922
Jun-96	\$10,330	\$9,923
Jul-96	\$10,210	\$9,548
Aug-96	\$10,330	\$9,644
Sep-96	\$10,410	\$9,698
Oct-96	\$10,690	\$9,660
Nov-96	\$10,890	\$9,819
Dec-96	\$11,250	\$9,638
Jan-97	\$11,330	\$9,430
Feb-97	\$11,450	\$9,588
Mar-97	\$11,490	\$9,461
Apr-97	\$11,440	\$9,320
May-97	\$11,670	\$9,917
Jun-97	\$11,936	\$10,141
Jul-97	\$12,026	\$9,988
Aug-97	\$12,117	\$9,562
Sep-97	\$12,569	\$9,732
Oct-97	\$11,574	\$9,347
Nov-97	\$11,232	\$8,930
Dec-97	\$11,081	\$8,733

GRAPHIC MATERIAL (14)

The following line graph hypothetically compares the performance of the Templeton Pacific Growth Fund to that of the MSCI Pacific Index, based on a \$10,000 investment from 1/27/92 to 12/31/97.

	Templeton Pacific Growth Fund	MSCI Pacific Index
1/27/92	\$10,000	\$10,000
1/31/92	\$10,000	\$9,949
2/29/92	\$10,000	\$9,253
3/31/92	\$10,000	\$8,375
4/30/92	\$10,010	\$7,993
5/31/92	\$10,210	\$8,618
6/30/92	\$10,450	\$7,942
7/31/92	\$9,900	\$7,834
8/31/92	\$9,570	\$8,908
9/30/92	\$9,790	\$8,706
10/31/92	\$10,230	\$8,401
11/30/92	\$10,110	\$8,561
12/31/92	\$9,880	\$8,465
1/31/93	\$9,980	\$8,450
2/28/93	\$10,330	\$8,862
3/31/93	\$10,270	\$9,935
4/30/93	\$10,920	\$11,519
5/31/93	\$11,290	\$11,856
6/30/93	\$11,100	\$11,664
7/31/93	\$11,230	\$12,355
8/31/93	\$11,770	\$12,723
9/30/93	\$11,840	\$12,249
10/31/93	\$13,110	\$12,522
11/30/93	\$12,970	\$10,757
12/31/93	\$14,610	\$11,509
1/31/94	\$14,720	\$12,843
2/28/94	\$14,300	\$13,177
3/31/94	\$13,330	\$12,451
4/30/94	\$13,520	\$12,991
5/31/94	\$14,080	\$13,302
6/30/94	\$13,704	\$13,739
7/31/94	\$13,956	\$13,446
8/31/94	\$14,549	\$13,682
9/30/94	\$14,006	\$13,342
10/31/94	\$14,097	\$13,681
11/30/94	\$13,191	\$12,920
12/31/94	\$13,322	\$13,009
1/31/95	\$12,356	\$12,189
2/28/95	\$12,869	\$11,889
3/31/95	\$13,191	\$12,804
4/30/95	\$13,372	\$13,351
5/31/95	\$13,895	\$12,820
6/30/95	\$13,639	\$12,279
7/31/95	\$14,166	\$13,166
8/31/95	\$14,001	\$12,672
9/30/95	\$14,259	\$12,792
10/31/95	\$13,691	\$12,172
11/30/95	\$13,763	\$12,772
12/31/95	\$14,384	\$13,398
1/31/96	\$15,552	\$13,423

2/29/96	\$15,500	\$13,273
3/31/96	\$15,531	\$13,683
4/30/96	\$16,224	\$14,381
5/31/96	\$16,276	\$13,759
6/30/96	\$16,132	\$13,764
7/31/96	\$15,255	\$13,134
8/31/96	\$15,634	\$12,790
9/30/96	\$15,862	\$13,210
10/31/96	\$15,353	\$12,599
11/30/96	\$16,176	\$12,943
12/31/96	\$15,981	\$12,272
1/31/97	\$15,732	\$11,241
2/28/97	\$15,797	\$11,477
3/31/97	\$15,201	\$11,059
4/30/97	\$15,299	\$11,291
5/31/97	\$16,165	\$12,397
6/30/97	\$16,457	\$13,167
7/31/97	\$16,733	\$12,854
8/31/97	\$14,030	\$11,581
9/30/97	\$14,350	\$11,538
10/31/97	\$11,714	\$10,139
11/30/97	\$10,688	\$9,582
12/31/97	\$10,236	\$9,163

GRAPHIC MATERIAL (15)

The following line graph hypothetically compares the performance of the Growth and Income Fund to that of the S&P 500 and Consumer Price Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Growth & Income Fund	S&P 500	CPI
1/24/89	\$10,000	\$ 10,000	\$ 10,000
1/31/89	\$10,020	\$ 10,165	\$ 10,011
2/28/89	\$10,080	\$ 9,912	\$ 10,052
3/31/89	\$10,150	\$ 10,143	\$ 10,111
4/30/89	\$10,210	\$ 10,670	\$ 10,176
5/31/89	\$10,280	\$ 11,102	\$ 10,234
6/30/89	\$9,990	\$ 11,038	\$ 10,259
7/31/89	\$10,530	\$ 12,035	\$ 10,284
8/31/89	\$11,020	\$ 12,271	\$ 10,300
9/30/89	\$10,680	\$ 12,221	\$ 10,333
10/31/89	\$10,040	\$ 11,937	\$ 10,383
11/30/89	\$10,110	\$ 12,181	\$ 10,407
12/31/89	\$10,290	\$ 12,473	\$ 10,424
1/31/90	\$9,760	\$ 11,636	\$ 10,531
2/28/90	\$9,920	\$ 11,786	\$ 10,581
3/31/90	\$10,159	\$ 12,099	\$ 10,639
4/30/90	\$9,958	\$ 11,797	\$ 10,656
5/31/90	\$10,824	\$ 12,948	\$ 10,681
6/30/90	\$10,693	\$ 12,861	\$ 10,738
7/31/90	\$10,623	\$ 12,820	\$ 10,779
8/31/90	\$9,736	\$ 11,661	\$ 10,878
9/30/90	\$9,343	\$ 11,093	\$ 10,970
10/31/90	\$9,242	\$ 11,045	\$ 11,036
11/30/90	\$9,776	\$ 11,759	\$ 11,060
12/31/90	\$10,048	\$ 12,087	\$ 11,060
1/31/91	\$10,683	\$ 12,614	\$ 11,126
2/28/91	\$11,127	\$ 13,516	\$ 11,143
3/31/91	\$11,147	\$ 13,843	\$ 11,160
4/30/91	\$11,177	\$ 13,876	\$ 11,176
5/31/91	\$11,600	\$ 14,474	\$ 11,210
6/30/91	\$10,853	\$ 13,811	\$ 11,242
7/31/91	\$11,243	\$ 14,455	\$ 11,259
8/31/91	\$11,623	\$ 14,797	\$ 11,292
9/30/91	\$11,541	\$ 14,550	\$ 11,342
10/31/91	\$11,664	\$ 14,745	\$ 11,359
11/30/91	\$11,161	\$ 14,151	\$ 11,392
12/31/91	\$12,054	\$ 15,770	\$ 11,400
1/31/92	\$12,577	\$ 15,476	\$ 11,417
2/29/92	\$12,587	\$ 15,676	\$ 11,458
3/31/92	\$12,125	\$ 15,370	\$ 11,516
4/30/92	\$12,146	\$ 15,822	\$ 11,532
5/31/92	\$12,218	\$ 15,900	\$ 11,548
6/30/92	\$11,943	\$ 15,663	\$ 11,590
7/31/92	\$12,295	\$ 16,303	\$ 11,614
8/31/92	\$12,119	\$ 15,969	\$ 11,647
9/30/92	\$12,420	\$ 16,156	\$ 11,679
10/31/92	\$12,658	\$ 16,211	\$ 11,720
11/30/92	\$13,135	\$ 16,762	\$ 11,737
12/31/92	\$13,259	\$ 16,968	\$ 11,729
1/31/93	\$13,363	\$ 17,111	\$ 11,786
2/28/93	\$13,280	\$ 17,344	\$ 11,827
3/31/93	\$13,653	\$ 17,710	\$ 11,869
4/30/93	\$13,477	\$ 17,281	\$ 11,902
5/31/93	\$13,840	\$ 17,742	\$ 11,919
6/30/93	\$13,676	\$ 17,794	\$ 11,935

7/31/93	\$13,477	\$	17,723	\$	11,935
8/31/93	\$13,979	\$	18,394	\$	11,969
9/30/93	\$13,896	\$	18,253	\$	11,994
10/31/93	\$14,105	\$	18,631	\$	12,043
11/30/93	\$13,990	\$	18,454	\$	12,051
12/31/93	\$14,627	\$	18,677	\$	12,051
1/31/94	\$15,453	\$	19,312	\$	12,084
2/28/94	\$15,255	\$	18,789	\$	12,125
3/31/94	\$14,345	\$	17,969	\$	12,166
4/30/94	\$14,429	\$	18,199	\$	12,183
5/31/94	\$14,471	\$	18,498	\$	12,192
6/30/94	\$13,815	\$	18,045	\$	12,233
7/31/94	\$14,215	\$	18,637	\$	12,266
8/31/94	\$14,689	\$	19,401	\$	12,315
9/30/94	\$14,257	\$	18,927	\$	12,349
10/31/94	\$14,457	\$	19,353	\$	12,357
11/30/94	\$13,920	\$	18,649	\$	12,373
12/31/94	\$14,131	\$	18,925	\$	12,373
1/31/95	\$14,246	\$	19,415	\$	12,423
2/28/95	\$14,815	\$	20,172	\$	12,472
3/31/95	\$15,236	\$	20,767	\$	12,514
4/30/95	\$15,689	\$	21,378	\$	12,555
5/31/95	\$16,173	\$	22,233	\$	12,580
6/30/95	\$16,273	\$	22,748	\$	12,605
7/31/95	\$16,547	\$	23,504	\$	12,605
8/31/95	\$16,744	\$	23,563	\$	12,638
9/30/95	\$17,467	\$	24,557	\$	12,663
10/31/95	\$17,335	\$	24,468	\$	12,705
11/30/95	\$18,014	\$	25,543	\$	12,696
12/31/95	\$18,770	\$	26,036	\$	12,687
1/31/96	\$19,153	\$	26,921	\$	12,762
2/29/96	\$18,956	\$	27,171	\$	12,803
3/31/96	\$19,153	\$	27,432	\$	12,870
4/30/96	\$19,252	\$	27,835	\$	12,920
5/31/96	\$19,449	\$	28,553	\$	12,944
6/30/96	\$19,810	\$	28,662	\$	12,952
7/31/96	\$19,077	\$	27,395	\$	12,977
8/31/96	\$19,346	\$	27,973	\$	13,001
9/30/96	\$19,859	\$	29,548	\$	13,043
10/31/96	\$20,445	\$	30,363	\$	13,085
11/30/96	\$21,422	\$	32,659	\$	13,110
12/31/96	\$21,434	\$	32,012	\$	13,110
1/31/97	\$22,045	\$	34,013	\$	13,151
2/28/97	\$22,558	\$	34,278	\$	13,192
3/31/97	\$22,069	\$	32,870	\$	13,225
4/30/97	\$22,362	\$	34,832	\$	13,241
5/31/97	\$23,547	\$	36,953	\$	13,233
6/30/97	\$24,227	\$	38,609	\$	13,249
7/31/97	\$25,478	\$	41,682	\$	13,265
8/31/97	\$24,970	\$	39,348	\$	13,290
9/30/97	\$26,364	\$	41,504	\$	13,323
10/31/97	\$25,595	\$	40,118	\$	13,357
11/30/97	\$26,742	\$	41,975	\$	13,349
12/31/97	\$27,381	\$	42,697	\$	13,333

GRAPHIC MATERIAL (16)

The following line graph hypothetically compares the performance of the Income Securities Fund to that of the Lehman Brothers Government/Corporate Bond Index, the S&P 500 and the Lipper Income Average, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Income Securities Fund	LB Gov't/Corp. Bond Index	S&P500	Lipper Income Average
1/24/89	\$10,000	\$10,000	\$10,000	\$10,000
3/31/89	\$10,150	\$10,007	\$10,143	\$10,244
6/30/89	\$10,280	\$10,811	\$11,039	\$10,809
9/30/89	\$10,460	\$10,913	\$12,221	\$11,240
12/31/89	\$10,900	\$11,307	\$12,473	\$11,395
3/31/90	\$10,693	\$11,178	\$12,097	\$11,190
6/30/90	\$11,030	\$11,580	\$12,858	\$11,528
9/30/90	\$10,101	\$11,650	\$11,092	\$10,903
12/31/90	\$10,091	\$12,244	\$12,085	\$11,387
3/31/91	\$11,754	\$12,573	\$13,841	\$12,374
6/30/91	\$12,452	\$12,763	\$13,809	\$12,595
9/30/91	\$13,448	\$13,497	\$14,548	\$13,461
12/31/91	\$13,999	\$14,216	\$15,767	\$14,203
3/31/92	\$14,935	\$14,003	\$15,369	\$14,352
6/30/92	\$15,515	\$14,572	\$15,661	\$14,777
9/30/92	\$15,855	\$15,283	\$16,154	\$15,300
12/31/92	\$15,983	\$15,293	\$16,966	\$15,597
3/31/93	\$16,979	\$16,006	\$17,708	\$16,395
6/30/93	\$17,671	\$16,488	\$17,795	\$16,763
9/30/93	\$18,367	\$17,035	\$18,254	\$17,306
12/31/93	\$18,954	\$16,986	\$18,677	\$17,486
3/31/94	\$18,151	\$16,451	\$17,969	\$16,949

6/30/94	\$17,816	\$16,247	\$18,045	\$16,879
9/30/94	\$18,175	\$16,328	\$18,927	\$17,224
12/31/94	\$17,729	\$16,388	\$18,923	\$16,988
3/31/95	\$18,460	\$17,204	\$20,767	\$17,934
6/30/95	\$19,869	\$18,319	\$22,750	\$19,012
9/30/95	\$20,804	\$18,669	\$24,558	\$19,907
12/31/95	\$21,700	\$19,539	\$26,037	\$20,801
3/31/96	\$21,938	\$19,082	\$27,435	\$21,200
6/30/96	\$22,576	\$19,172	\$28,667	\$21,586
9/30/96	\$22,955	\$19,511	\$29,553	\$22,009
12/31/96	\$24,148	\$20,108	\$32,017	\$23,048
3/31/97	\$24,344	\$19,935	\$32,875	\$23,037
6/30/97	\$25,750	\$20,661	\$38,615	\$24,847
9/30/97	\$27,089	\$21,384	\$41,508	\$26,343
12/31/97	\$28,275	\$22,070	\$42,697	\$26,799

GRAPHIC MATERIAL (17)

The following line graph hypothetically compares the performance of the Mutual Shares Securities Fund to that of the S&P 500 and the Lipper Growth & Income Average, based on a \$10,000 investment from 11/8/96 to 12/31/97.

	Mutual Shares Securities Fund	S&P500	Lipper Growth & Income Average
11/8/96	\$10,000	\$10,000	\$10,000
11/30/96	\$10,120	\$10,554	\$10,477
12/31/96	\$10,350	\$10,345	\$10,367
1/31/97	\$10,620	\$10,992	\$10,813
2/28/97	\$10,730	\$11,078	\$10,869
3/31/97	\$10,420	\$10,622	\$10,481
4/30/97	\$10,510	\$11,257	\$10,858
5/31/97	\$10,890	\$11,942	\$11,538
6/30/97	\$11,145	\$12,477	\$11,982
7/31/97	\$11,685	\$13,470	\$12,864
8/31/97	\$11,625	\$12,716	\$12,434
9/30/97	\$12,115	\$13,413	\$13,064
10/31/97	\$11,805	\$12,965	\$12,606
11/30/97	\$11,915	\$13,565	\$12,944
12/31/97	\$12,185	\$13,798	\$13,160

GRAPHIC MATERIAL (18)

The following line graph hypothetically compares the performance of the Real Estate Securities Fund to that of the S&P 500 and the Wilshire Real Estate Securities Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Real Estate Securities Fund	S&P 500	Wilshire Real Estate Securities Index
1/24/89	\$10,000	\$ 10,000	\$ 10,000
1/31/89	\$10,020	\$ 10,165	\$ 10,037
2/28/89	\$10,080	\$ 9,912	\$ 10,063
3/31/89	\$10,150	\$ 10,143	\$ 10,133
4/30/89	\$10,220	\$ 10,670	\$ 10,318
5/31/89	\$10,290	\$ 11,102	\$ 10,495
6/30/89	\$10,540	\$ 11,038	\$ 10,613
7/31/89	\$10,850	\$ 12,035	\$ 10,948
8/31/89	\$10,990	\$ 12,271	\$ 10,832
9/30/89	\$10,750	\$ 12,221	\$ 10,808
10/31/89	\$10,450	\$ 11,937	\$ 10,268
11/30/89	\$10,490	\$ 12,181	\$ 10,115
12/31/89	\$10,480	\$ 12,473	\$ 10,111
1/31/90	\$10,170	\$ 11,636	\$ 9,634
2/28/90	\$10,150	\$ 11,786	\$ 9,631
3/31/90	\$10,249	\$ 12,099	\$ 9,608
4/30/90	\$10,107	\$ 11,797	\$ 9,422
5/31/90	\$10,178	\$ 12,948	\$ 9,381
6/30/90	\$10,259	\$ 12,861	\$ 9,398
7/31/90	\$10,137	\$ 12,820	\$ 9,038
8/31/90	\$9,427	\$ 11,661	\$ 7,983
9/30/90	\$8,808	\$ 11,093	\$ 7,058
10/31/90	\$8,564	\$ 11,045	\$ 6,549
11/30/90	\$9,102	\$ 11,759	\$ 6,816
12/31/90	\$9,224	\$ 12,087	\$ 6,728
1/31/91	\$10,158	\$ 12,614	\$ 7,383
2/28/91	\$10,381	\$ 13,516	\$ 7,817
3/31/91	\$11,081	\$ 13,843	\$ 8,513
4/30/91	\$11,274	\$ 13,876	\$ 8,444
5/31/91	\$11,406	\$ 14,474	\$ 8,575
6/30/91	\$11,096	\$ 13,811	\$ 8,152
7/31/91	\$11,233	\$ 14,455	\$ 8,118
8/31/91	\$11,191	\$ 14,797	\$ 8,020
9/30/91	\$11,413	\$ 14,550	\$ 7,928
10/31/91	\$11,265	\$ 14,745	\$ 7,750
11/30/91	\$11,180	\$ 14,151	\$ 7,493
12/31/91	\$11,909	\$ 15,770	\$ 8,076
1/31/92	\$12,987	\$ 15,476	\$ 8,456

2/29/92	\$12,628	\$	15,676	\$	8,435
3/31/92	\$12,396	\$	15,370	\$	8,253
4/30/92	\$12,216	\$	15,822	\$	8,116
5/31/92	\$12,501	\$	15,900	\$	8,148
6/30/92	\$12,390	\$	15,663	\$	7,903
7/31/92	\$12,886	\$	16,303	\$	7,932
8/31/92	\$12,746	\$	15,969	\$	7,812
9/30/92	\$12,929	\$	16,156	\$	8,109
10/31/92	\$13,135	\$	16,211	\$	8,196
11/30/92	\$13,286	\$	16,762	\$	8,267
12/31/92	\$13,804	\$	16,968	\$	8,673
1/31/93	\$14,365	\$	17,111	\$	9,276
2/28/93	\$14,883	\$	17,344	\$	9,725
3/31/93	\$15,854	\$	17,710	\$	10,378
4/30/93	\$15,228	\$	17,281	\$	9,789
5/31/93	\$15,099	\$	17,742	\$	9,635
6/30/93	\$15,619	\$	17,794	\$	9,888
7/31/93	\$15,925	\$	17,723	\$	10,089
8/31/93	\$16,351	\$	18,394	\$	10,298
9/30/93	\$17,192	\$	18,253	\$	10,765
10/31/93	\$17,072	\$	18,631	\$	10,463
11/30/93	\$16,013	\$	18,454	\$	10,006
12/31/93	\$16,428	\$	18,677	\$	9,994
1/31/94	\$16,723	\$	19,312	\$	10,294
2/28/94	\$17,411	\$	18,789	\$	10,715
3/31/94	\$16,799	\$	17,969	\$	10,219
4/30/94	\$17,072	\$	18,199	\$	10,334
5/31/94	\$17,334	\$	18,498	\$	10,548
6/30/94	\$17,010	\$	18,045	\$	10,341
7/31/94	\$16,976	\$	18,637	\$	10,364
8/31/94	\$16,921	\$	19,401	\$	10,357
9/30/94	\$16,644	\$	18,927	\$	10,184
10/31/94	\$16,047	\$	19,353	\$	9,811
11/30/94	\$15,471	\$	18,649	\$	9,428
12/31/94	\$16,943	\$	18,925	\$	10,159
1/31/95	\$16,323	\$	19,415	\$	9,830
2/28/95	\$16,611	\$	20,172	\$	10,138
3/31/95	\$16,733	\$	20,767	\$	10,197
4/30/95	\$16,689	\$	21,378	\$	10,123
5/31/95	\$17,364	\$	22,233	\$	10,459
6/30/95	\$17,658	\$	22,748	\$	10,641
7/31/95	\$18,024	\$	23,504	\$	10,812
8/31/95	\$18,413	\$	23,563	\$	10,944
9/30/95	\$18,940	\$	24,557	\$	11,145
10/31/95	\$18,551	\$	24,468	\$	10,800
11/30/95	\$18,860	\$	25,543	\$	10,912
12/31/95	\$19,912	\$	26,036	\$	11,545
1/31/96	\$20,359	\$	26,921	\$	11,704
2/29/96	\$20,622	\$	27,171	\$	11,936
3/31/96	\$20,645	\$	27,432	\$	12,033
4/30/96	\$20,702	\$	27,835	\$	12,087
5/31/96	\$21,114	\$	28,553	\$	12,356
6/30/96	\$21,341	\$	28,662	\$	12,603
7/31/96	\$21,174	\$	27,395	\$	12,491
8/31/96	\$22,188	\$	27,973	\$	13,022
9/30/96	\$22,889	\$	29,548	\$	13,348
10/31/96	\$23,343	\$	30,363	\$	13,709
11/30/96	\$24,107	\$	32,659	\$	14,278
12/31/96	\$26,447	\$	32,012	\$	15,802
1/31/97	\$26,782	\$	34,013	\$	16,028
2/28/97	\$26,746	\$	34,278	\$	16,037
3/31/97	\$26,949	\$	32,870	\$	16,092
4/30/97	\$26,256	\$	34,832	\$	15,572
5/31/97	\$27,212	\$	36,953	\$	16,036
6/30/97	\$28,455	\$	38,609	\$	16,832
7/31/97	\$29,228	\$	41,682	\$	17,385
8/31/97	\$29,191	\$	39,348	\$	17,257
9/30/97	\$32,034	\$	41,504	\$	18,958
10/31/97	\$30,837	\$	40,118	\$	18,152
11/30/97	\$31,386	\$	41,975	\$	18,517
12/31/97	\$31,922	\$	42,697	\$	18,930

GRAPHIC MATERIAL (19)

The following line graph hypothetically compares the performance of the Rising Dividends Fund to that of the Wilshire MidCap Growth Index, based on a \$10,000 investment from 1/27/92 to 12/31/97.

	Rising Dividends Fund	Wilshire MidCap Growth Index
1/27/92	\$10,000	\$ 10,000
1/31/92	\$10,000	\$ 10,039
2/29/92	\$10,000	\$ 10,208
3/31/92	\$ 9,930	\$ 9,801
4/30/92	\$ 9,980	\$ 9,568
5/31/92	\$10,130	\$ 9,448
6/30/92	\$ 9,990	\$ 9,019

7/31/92	\$10,350	\$	9,513
8/31/92	\$10,240	\$	9,315
9/30/92	\$10,410	\$	9,478
10/31/92	\$10,540	\$	9,864
11/30/92	\$10,860	\$	10,620
12/31/92	\$10,980	\$	10,945
1/31/93	\$10,860	\$	11,192
2/28/93	\$10,670	\$	10,815
3/31/93	\$10,760	\$	11,147
4/30/93	\$10,390	\$	10,681
5/31/93	\$10,530	\$	11,290
6/30/93	\$10,418	\$	11,364
7/31/93	\$10,418	\$	11,263
8/31/93	\$10,588	\$	11,834
9/30/93	\$10,588	\$	12,131
10/31/93	\$10,749	\$	12,196
11/30/93	\$10,478	\$	12,005
12/31/93	\$10,598	\$	12,669
1/31/94	\$10,739	\$	13,116
2/28/94	\$10,378	\$	13,186
3/31/94	\$ 9,916	\$	12,401
4/30/94	\$ 9,936	\$	12,451
5/31/94	\$10,077	\$	12,261
6/30/94	\$10,054	\$	11,643
7/31/94	\$10,156	\$	11,927
8/31/94	\$10,584	\$	12,948
9/30/94	\$10,340	\$	12,845
10/31/94	\$10,309	\$	13,159
11/30/94	\$10,064	\$	12,576
12/31/94	\$10,166	\$	12,785
1/31/95	\$10,442	\$	12,787
2/28/95	\$10,748	\$	13,554
3/31/95	\$10,982	\$	14,055
4/30/95	\$11,064	\$	14,264
5/31/95	\$11,441	\$	14,498
6/30/95	\$11,565	\$	15,410
7/31/95	\$11,815	\$	16,704
8/31/95	\$12,013	\$	16,960
9/30/95	\$12,409	\$	17,433
10/31/95	\$12,304	\$	16,819
11/30/95	\$12,940	\$	17,702
12/31/95	\$13,190	\$	17,766
1/31/96	\$13,451	\$	18,073
2/29/96	\$13,648	\$	18,749
3/31/96	\$13,648	\$	18,976
4/30/96	\$13,617	\$	20,102
5/31/96	\$13,992	\$	20,703
6/30/96	\$14,146	\$	19,574
7/31/96	\$13,731	\$	17,899
8/31/96	\$14,008	\$	19,204
9/30/96	\$14,731	\$	20,112
10/31/96	\$15,167	\$	19,543
11/30/96	\$16,220	\$	20,643
12/31/96	\$16,379	\$	20,370
1/31/97	\$16,709	\$	20,961
2/28/97	\$17,177	\$	20,565
3/31/97	\$16,645	\$	19,309
4/30/97	\$17,071	\$	19,969
5/31/97	\$18,390	\$	21,620
6/30/97	\$19,055	\$	22,371
7/31/97	\$20,671	\$	23,952
8/31/97	\$20,250	\$	23,768
9/30/97	\$21,313	\$	25,332
10/31/97	\$20,793	\$	24,123
11/30/97	\$21,291	\$	24,266
12/31/97	\$21,789	\$	24,472

GRAPHIC MATERIAL (20)

This chart shows in pie format the Templeton Global Asset Allocation Fund's asset allocation on December 31, 1997, based on total net assets.

Equity Securities	56.2%
Fixed-Income Securities	31.0%
Short-Term & Other Net Assets	12.8%

GRAPHIC MATERIAL (21)

The following line graph hypothetically compares the performance of the Templeton Global Asset Allocation Fund to that of the MSCI World Index and the JP Morgan Global Government Bond Index, based on a \$10,000 investment from 5/1/95 to 12/31/97.

	TempletonGlobal Asset Allocation	MSCI World Index	JP Morgan Global Government Bond Index
5/01/95	\$10,000	\$10,000	\$10,000

5/31/95	\$10,060	\$10,088	\$10,279
6/30/95	\$10,120	\$10,086	\$10,343
7/31/95	\$10,330	\$10,593	\$10,392
8/31/95	\$10,280	\$10,359	\$10,103
9/30/95	\$10,380	\$10,663	\$10,331
10/31/95	\$10,310	\$10,497	\$10,432
11/30/95	\$10,420	\$10,863	\$10,548
12/31/95	\$10,690	\$11,183	\$10,679
1/31/96	\$11,066	\$11,387	\$10,569
2/29/96	\$11,137	\$11,458	\$10,508
3/31/96	\$11,208	\$11,651	\$10,491
4/30/96	\$11,411	\$11,927	\$10,453
5/31/96	\$11,513	\$11,940	\$10,463
6/30/96	\$11,569	\$12,002	\$10,555
7/31/96	\$11,396	\$11,581	\$10,749
8/31/96	\$11,640	\$11,716	\$10,794
9/30/96	\$11,915	\$12,177	\$10,853
10/31/96	\$12,047	\$12,264	\$11,069
11/30/96	\$12,587	\$12,953	\$11,227
12/31/96	\$12,810	\$12,748	\$11,148
1/31/97	\$13,024	\$12,904	\$10,870
2/28/97	\$13,136	\$13,054	\$10,794
3/31/97	\$13,055	\$12,799	\$10,712
4/30/97	\$13,085	\$13,219	\$10,652
5/31/97	\$13,502	\$14,038	\$10,903
6/30/97	\$14,009	\$14,739	\$11,027
7/31/97	\$14,760	\$15,421	\$10,987
8/31/97	\$14,655	\$14,392	\$10,973
9/30/97	\$15,396	\$15,175	\$11,217
10/31/97	\$14,342	\$14,379	\$11,455
11/30/97	\$14,228	\$14,636	\$11,317
12/31/97	\$14,311	\$14,816	\$11,305

GRAPHIC MATERIAL (22)

The following line graph hypothetically compares the performance of the Utility Equity Fund to that of the S&P 500, the Consumer Price Index and the FT/S&P Actuaries World Utilities Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Utility Equity Fund	S&P500	CPI	FT/S&P Actuaries World Utilities Index
1/24/89	\$10,000	\$ 10,000	\$ 10,000	\$10,000
1/31/89	\$10,020	\$ 10,165	\$ 10,011	\$10,076
2/28/89	\$10,080	\$ 9,912	\$ 10,052	\$ 9,731
3/31/89	\$10,150	\$ 10,143	\$ 10,111	\$ 9,424
4/30/89	\$10,210	\$ 10,670	\$ 10,176	\$ 9,821
5/31/89	\$10,610	\$ 11,102	\$ 10,234	\$ 9,842
6/30/89	\$10,730	\$ 11,038	\$ 10,259	\$ 9,718
7/31/89	\$11,260	\$ 12,035	\$ 10,284	\$10,818
8/31/89	\$11,100	\$ 12,271	\$ 10,300	\$10,348
9/30/89	\$11,160	\$ 12,221	\$ 10,333	\$10,740
10/31/89	\$11,260	\$ 11,937	\$ 10,383	\$10,587
11/30/89	\$11,500	\$ 12,181	\$ 10,407	\$11,178
12/31/89	\$12,140	\$ 12,473	\$ 10,424	\$11,720
1/31/90	\$11,680	\$ 11,636	\$ 10,531	\$10,829
2/28/90	\$11,750	\$ 11,786	\$ 10,581	\$10,524
3/31/90	\$11,668	\$ 12,099	\$ 10,639	\$10,021
4/30/90	\$11,153	\$ 11,797	\$ 10,656	\$ 9,769
5/31/90	\$11,607	\$ 12,948	\$ 10,681	\$10,744
6/30/90	\$11,678	\$ 12,861	\$ 10,738	\$10,436
7/31/90	\$11,839	\$ 12,820	\$ 10,779	\$10,377
8/31/90	\$11,103	\$ 11,661	\$ 10,878	\$ 9,566
9/30/90	\$11,113	\$ 11,093	\$ 10,970	\$ 9,095
10/31/90	\$11,899	\$ 11,045	\$ 11,036	\$10,159
11/30/90	\$12,192	\$ 11,759	\$ 11,060	\$10,152
12/31/90	\$12,363	\$ 12,087	\$ 11,060	\$10,362
1/31/91	\$12,232	\$ 12,614	\$ 11,126	\$10,563
2/28/91	\$12,676	\$ 13,516	\$ 11,143	\$11,060
3/31/91	\$12,888	\$ 13,843	\$ 11,160	\$10,830
4/30/91	\$12,989	\$ 13,876	\$ 11,176	\$10,925
5/31/91	\$12,968	\$ 14,474	\$ 11,210	\$11,016
6/30/91	\$12,871	\$ 13,811	\$ 11,242	\$10,552
7/31/91	\$13,379	\$ 14,455	\$ 11,259	\$11,140
8/31/91	\$13,742	\$ 14,797	\$ 11,292	\$11,331
9/30/91	\$14,218	\$ 14,550	\$ 11,342	\$11,720
10/31/91	\$14,426	\$ 14,745	\$ 11,359	\$11,884
11/30/91	\$14,706	\$ 14,151	\$ 11,392	\$11,694
12/31/91	\$15,276	\$ 15,770	\$ 11,400	\$12,515
1/31/92	\$14,757	\$ 15,476	\$ 11,417	\$11,978
2/29/92	\$14,726	\$ 15,676	\$ 11,458	\$11,830
3/31/92	\$14,633	\$ 15,370	\$ 11,516	\$11,451
4/30/92	\$15,068	\$ 15,822	\$ 11,532	\$11,838
5/31/92	\$15,358	\$ 15,900	\$ 11,548	\$12,128
6/30/92	\$15,541	\$ 15,663	\$ 11,590	\$11,985
7/31/92	\$16,377	\$ 16,303	\$ 11,614	\$12,447

8/31/92	\$16,314	\$ 15,969	\$ 11,647	\$12,752
9/30/92	\$16,388	\$ 16,156	\$ 11,679	\$12,519
10/31/92	\$16,282	\$ 16,211	\$ 11,720	\$12,260
11/30/92	\$16,303	\$ 16,762	\$ 11,737	\$12,512
12/31/92	\$16,737	\$ 16,968	\$ 11,729	\$12,831
1/31/93	\$17,001	\$ 17,111	\$ 11,786	\$13,004
2/28/93	\$17,922	\$ 17,344	\$ 11,827	\$13,661
3/31/93	\$18,081	\$ 17,710	\$ 11,869	\$14,447
4/30/93	\$18,091	\$ 17,281	\$ 11,902	\$14,726
5/31/93	\$18,017	\$ 17,742	\$ 11,919	\$14,983
6/30/93	\$18,457	\$ 17,794	\$ 11,935	\$15,273
7/31/93	\$18,824	\$ 17,723	\$ 11,935	\$15,647
8/31/93	\$19,343	\$ 18,394	\$ 11,969	\$16,312
9/30/93	\$19,245	\$ 18,253	\$ 11,994	\$16,063
10/31/93	\$19,127	\$ 18,631	\$ 12,043	\$16,349
11/30/93	\$18,220	\$ 18,454	\$ 12,051	\$15,497
12/31/93	\$18,501	\$ 18,677	\$ 12,051	\$15,982
1/31/94	\$18,123	\$ 19,312	\$ 12,084	\$16,533
2/28/94	\$17,205	\$ 18,789	\$ 12,125	\$15,846
3/31/94	\$16,601	\$ 17,969	\$ 12,166	\$15,231
4/30/94	\$16,989	\$ 18,199	\$ 12,183	\$15,507
5/31/94	\$16,104	\$ 18,498	\$ 12,192	\$15,254
6/30/94	\$15,353	\$ 18,045	\$ 12,233	\$14,912
7/31/94	\$16,141	\$ 18,637	\$ 12,266	\$15,303
8/31/94	\$16,298	\$ 19,401	\$ 12,315	\$15,643
9/30/94	\$15,893	\$ 18,927	\$ 12,349	\$15,209
10/31/94	\$16,197	\$ 19,353	\$ 12,357	\$15,431
11/30/94	\$16,287	\$ 18,649	\$ 12,373	\$14,803
12/31/94	\$16,219	\$ 18,925	\$ 12,373	\$14,698
1/31/95	\$17,164	\$ 19,415	\$ 12,423	\$14,817
2/28/95	\$17,232	\$ 20,172	\$ 12,472	\$14,838
3/31/95	\$16,984	\$ 20,767	\$ 12,514	\$15,255
4/30/95	\$17,344	\$ 21,378	\$ 12,555	\$15,792
5/31/95	\$18,300	\$ 22,233	\$ 12,580	\$16,005
6/30/95	\$18,282	\$ 22,748	\$ 12,605	\$16,095
7/31/95	\$18,317	\$ 23,504	\$ 12,605	\$16,557
8/31/95	\$18,496	\$ 23,563	\$ 12,638	\$16,504
9/30/95	\$19,543	\$ 24,557	\$ 12,663	\$17,296
10/31/95	\$19,984	\$ 24,468	\$ 12,705	\$17,135
11/30/95	\$20,317	\$ 25,543	\$ 12,696	\$17,356
12/31/95	\$21,305	\$ 26,036	\$ 12,687	\$17,943
1/31/96	\$21,686	\$ 26,921	\$ 12,762	\$18,194
2/29/96	\$21,293	\$ 27,171	\$ 12,803	\$17,995
3/31/96	\$21,281	\$ 27,432	\$ 12,870	\$17,826
4/30/96	\$20,841	\$ 27,835	\$ 12,920	\$18,304
5/31/96	\$21,305	\$ 28,553	\$ 12,944	\$18,147
6/30/96	\$22,247	\$ 28,662	\$ 12,952	\$18,381
7/31/96	\$21,080	\$ 27,395	\$ 12,977	\$17,486
8/31/96	\$21,531	\$ 27,973	\$ 13,001	\$17,494
9/30/96	\$21,657	\$ 29,548	\$ 13,043	\$17,718
10/31/96	\$22,360	\$ 30,363	\$ 13,085	\$18,147
11/30/96	\$22,761	\$ 32,659	\$ 13,110	\$19,034
12/31/96	\$22,811	\$ 32,012	\$ 13,110	\$19,457
1/31/97	\$23,301	\$ 34,013	\$ 13,151	\$19,611
2/28/97	\$23,276	\$ 34,278	\$ 13,192	\$19,719
3/31/97	\$22,510	\$ 32,870	\$ 13,225	\$19,161
4/30/97	\$22,297	\$ 34,832	\$ 13,241	\$19,440
5/31/97	\$23,715	\$ 36,953	\$ 13,233	\$20,725
6/30/97	\$24,493	\$ 38,609	\$ 13,249	\$21,683
7/31/97	\$25,076	\$ 41,682	\$ 13,265	\$21,988
8/31/97	\$24,223	\$ 39,348	\$ 13,290	\$20,920
9/30/97	\$25,489	\$ 41,504	\$ 13,323	\$22,326
10/31/97	\$25,062	\$ 40,118	\$ 13,357	\$22,002
11/30/97	\$26,726	\$ 41,975	\$ 13,349	\$23,542
12/31/97	\$28,918	\$ 42,697	\$ 13,333	\$24,521

GRAPHIC MATERIAL (23)

The following line graph hypothetically compares the performance of the High Income Fund to that of the CS First Boston High Yield Index and the Consumer Price Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	High Income Fund	CS First Boston High Yield	CPI
1/24/89	\$10,000	\$ 10,000	\$ 10,000
1/31/89	\$10,020	\$ 10,045	\$ 10,011
2/28/89	\$10,080	\$ 10,092	\$ 10,052
3/31/89	\$10,150	\$ 10,019	\$ 10,111
4/30/89	\$10,220	\$ 9,995	\$ 10,176
5/31/89	\$10,290	\$ 10,233	\$ 10,234
6/30/89	\$10,300	\$ 10,380	\$ 10,259
7/31/89	\$10,330	\$ 10,403	\$ 10,284
8/31/89	\$10,370	\$ 10,402	\$ 10,300
9/30/89	\$10,300	\$ 10,166	\$ 10,333
10/31/89	\$10,070	\$ 9,912	\$ 10,383
11/30/89	\$10,050	\$ 9,931	\$ 10,407
12/31/89	\$10,130	\$ 9,887	\$ 10,424

1/31/90	\$9,920	\$	9,539	\$	10,531
2/28/90	\$9,770	\$	9,362	\$	10,581
3/31/90	\$9,924	\$	9,632	\$	10,639
4/30/90	\$9,831	\$	9,672	\$	10,656
5/31/90	\$9,893	\$	9,874	\$	10,681
6/30/90	\$10,152	\$	10,185	\$	10,738
7/31/90	\$10,379	\$	10,514	\$	10,779
8/31/90	\$9,893	\$	10,028	\$	10,878
9/30/90	\$9,251	\$	9,263	\$	10,970
10/31/90	\$8,879	\$	9,030	\$	11,036
11/30/90	\$9,076	\$	9,212	\$	11,060
12/31/90	\$9,251	\$	9,256	\$	11,060
1/31/91	\$9,345	\$	9,510	\$	11,126
2/28/91	\$9,934	\$	10,330	\$	11,143
3/31/91	\$10,286	\$	10,971	\$	11,160
4/30/91	\$10,566	\$	11,426	\$	11,176
5/31/91	\$10,659	\$	11,483	\$	11,210
6/30/91	\$10,907	\$	11,784	\$	11,242
7/31/91	\$11,168	\$	12,182	\$	11,259
8/31/91	\$11,372	\$	12,404	\$	11,292
9/30/91	\$11,519	\$	12,686	\$	11,342
10/31/91	\$11,803	\$	13,105	\$	11,359
11/30/91	\$11,939	\$	13,210	\$	11,392
12/31/91	\$12,007	\$	13,307	\$	11,400
1/31/92	\$12,392	\$	13,848	\$	11,417
2/29/92	\$12,608	\$	14,185	\$	11,458
3/31/92	\$12,778	\$	14,396	\$	11,516
4/30/92	\$12,857	\$	14,408	\$	11,532
5/31/92	\$13,038	\$	14,604	\$	11,548
6/30/92	\$13,161	\$	14,748	\$	11,590
7/31/92	\$13,411	\$	14,975	\$	11,614
8/31/92	\$13,637	\$	15,182	\$	11,647
9/30/92	\$13,744	\$	15,281	\$	11,679
10/31/92	\$13,577	\$	15,122	\$	11,720
11/30/92	\$13,839	\$	15,349	\$	11,737
12/31/92	\$13,993	\$	15,522	\$	11,729
1/31/93	\$14,255	\$	15,946	\$	11,786
2/28/93	\$14,481	\$	16,261	\$	11,827
3/31/93	\$14,695	\$	16,605	\$	11,869
4/30/93	\$14,754	\$	16,699	\$	11,902
5/31/93	\$14,897	\$	16,943	\$	11,919
6/30/93	\$15,206	\$	17,250	\$	11,935
7/31/93	\$15,317	\$	17,429	\$	11,935
8/31/93	\$15,403	\$	17,577	\$	11,969
9/30/93	\$15,403	\$	17,677	\$	11,994
10/31/93	\$15,921	\$	18,001	\$	12,043
11/30/93	\$16,020	\$	18,228	\$	12,051
12/31/93	\$16,192	\$	18,457	\$	12,051
1/31/94	\$16,537	\$	18,786	\$	12,084
2/28/94	\$16,414	\$	18,814	\$	12,125
3/31/94	\$15,637	\$	18,261	\$	12,166
4/30/94	\$15,415	\$	18,016	\$	12,183
5/31/94	\$15,465	\$	18,119	\$	12,192
6/30/94	\$15,619	\$	17,998	\$	12,233
7/31/94	\$15,593	\$	18,082	\$	12,266
8/31/94	\$15,710	\$	18,212	\$	12,315
9/30/94	\$15,762	\$	18,285	\$	12,349
10/31/94	\$15,788	\$	18,298	\$	12,357
11/30/94	\$15,684	\$	18,086	\$	12,373
12/31/94	\$15,853	\$	18,278	\$	12,373
1/31/95	\$16,112	\$	18,469	\$	12,423
2/28/95	\$16,735	\$	18,924	\$	12,472
3/31/95	\$16,904	\$	19,138	\$	12,514
4/30/95	\$17,398	\$	19,562	\$	12,555
5/31/95	\$17,878	\$	20,114	\$	12,580
6/30/95	\$17,971	\$	20,247	\$	12,605
7/31/95	\$18,221	\$	20,561	\$	12,605
8/31/95	\$18,277	\$	20,618	\$	12,638
9/30/95	\$18,471	\$	20,855	\$	12,663
10/31/95	\$18,721	\$	21,087	\$	12,705
11/30/95	\$18,666	\$	21,186	\$	12,696
12/31/95	\$18,985	\$	21,455	\$	12,687
1/31/96	\$19,347	\$	21,863	\$	12,762
2/29/96	\$19,541	\$	21,979	\$	12,803
3/31/96	\$19,402	\$	21,919	\$	12,870
4/30/96	\$19,500	\$	22,038	\$	12,920
5/31/96	\$19,652	\$	22,216	\$	12,944
6/30/96	\$19,701	\$	22,265	\$	12,952
7/31/96	\$19,899	\$	22,465	\$	12,977
8/31/96	\$20,250	\$	22,710	\$	13,001
9/30/96	\$20,739	\$	23,101	\$	13,043
10/31/96	\$20,938	\$	23,295	\$	13,085
11/30/96	\$21,319	\$	23,658	\$	13,110
12/31/96	\$21,625	\$	24,120	\$	13,110
1/31/97	\$21,762	\$	24,296	\$	13,151
2/28/97	\$22,144	\$	24,752	\$	13,192

3/31/97	\$21,594	\$	24,475	\$	13,225
4/30/97	\$21,854	\$	24,693	\$	13,241
5/31/97	\$22,358	\$	25,189	\$	13,233
6/30/97	\$22,671	\$	25,532	\$	13,249
7/31/97	\$23,271	\$	26,073	\$	13,265
8/31/97	\$23,321	\$	26,214	\$	13,290
9/30/97	\$23,788	\$	26,733	\$	13,323
10/31/97	\$23,605	\$	26,730	\$	13,357
11/30/97	\$23,888	\$	26,920	\$	13,349
12/31/97	\$24,105	\$	27,165	\$	13,333

GRAPHIC MATERIAL (24)

This chart shows in pie format the Templeton Global Income Securities Fund's geographic distribution on December 31, 1997, based on total net assets.

North America	36.7%
Europe	32.1%
Latin America	21.3%
Australia/New Zealand	5.9%
Short-Term & Other Net Assets	4.0%

GRAPHIC MATERIAL (25)

The following line graph hypothetically compares the performance of the Templeton Global Income Securities Fund to that of the JP Morgan Global Government Bond Index and the Consumer Price Index, based on a \$10,000 investment from 1/24/89 to 12/31/97.

	Templeton Global Income Securities Fund	JP Morgan Global Gov. Bond Index	CPI
1/24/89	\$10,000	\$10,000	\$10,000
1/31/89	\$10,020	\$ 9,977	\$10,012
2/28/89	\$10,080	\$ 9,961	\$10,052
3/31/89	\$10,150	\$ 9,877	\$10,110
4/30/89	\$10,220	\$10,039	\$10,176
5/31/89	\$10,290	\$ 9,931	\$10,234
6/30/89	\$10,330	\$10,157	\$10,259
7/31/89	\$10,510	\$10,561	\$10,285
8/31/89	\$10,610	\$10,249	\$10,301
9/30/89	\$10,600	\$10,411	\$10,333
10/31/89	\$10,570	\$10,545	\$10,384
11/30/89	\$10,760	\$10,639	\$10,408
12/31/89	\$10,930	\$10,763	\$10,424
1/31/90	\$10,920	\$10,602	\$10,531
2/28/90	\$10,850	\$10,488	\$10,581
3/31/90	\$10,965	\$10,423	\$10,639
4/30/90	\$10,944	\$10,382	\$10,656
5/31/90	\$11,138	\$10,714	\$10,681
6/30/90	\$11,454	\$10,908	\$10,738
7/31/90	\$11,729	\$11,229	\$10,779
8/31/90	\$11,627	\$11,141	\$10,878
9/30/90	\$11,617	\$11,245	\$10,969
10/31/90	\$11,688	\$11,690	\$11,035
11/30/90	\$11,882	\$11,896	\$11,060
12/31/90	\$12,004	\$12,028	\$11,060
1/31/91	\$12,147	\$12,301	\$11,126
2/28/91	\$12,412	\$12,313	\$11,143
3/31/91	\$12,147	\$11,928	\$11,159
4/30/91	\$12,320	\$12,072	\$11,175
5/31/91	\$12,463	\$12,082	\$11,208
6/30/91	\$12,359	\$11,921	\$11,242
7/31/91	\$12,605	\$12,173	\$11,258
8/31/91	\$12,648	\$12,426	\$11,291
9/30/91	\$12,982	\$12,879	\$11,341
10/31/91	\$13,154	\$13,006	\$11,357
11/30/91	\$13,132	\$13,218	\$11,390
12/31/91	\$13,486	\$13,886	\$11,399
1/31/92	\$13,454	\$13,614	\$11,415
2/29/92	\$13,464	\$13,575	\$11,457
3/31/92	\$13,475	\$13,449	\$11,515
4/30/92	\$13,604	\$13,561	\$11,531
5/31/92	\$13,871	\$13,946	\$11,547
6/30/92	\$13,868	\$14,327	\$11,589
7/31/92	\$14,014	\$14,642	\$11,614
8/31/92	\$13,846	\$15,032	\$11,646
9/30/92	\$13,197	\$15,017	\$11,679
10/31/92	\$13,477	\$14,642	\$11,721
11/30/92	\$13,253	\$14,383	\$11,737
12/31/92	\$13,432	\$14,519	\$11,729
1/31/93	\$13,533	\$14,765	\$11,787
2/28/93	\$13,734	\$15,003	\$11,828
3/31/93	\$14,148	\$15,233	\$11,870
4/30/93	\$14,574	\$15,511	\$11,903
5/31/93	\$14,809	\$15,609	\$11,919
6/30/93	\$14,778	\$15,622	\$11,936

7/31/93	\$14,825	\$15,628	\$11,935
8/31/93	\$15,155	\$16,091	\$11,969
9/30/93	\$15,107	\$16,261	\$11,993
10/31/93	\$15,461	\$16,253	\$12,044
11/30/93	\$15,155	\$16,134	\$12,052
12/31/93	\$15,673	\$16,299	\$12,051
1/31/94	\$15,967	\$16,453	\$12,085
2/28/94	\$15,602	\$16,272	\$12,127
3/31/94	\$15,131	\$16,198	\$12,168
4/30/94	\$15,119	\$16,185	\$12,185
5/31/94	\$15,178	\$16,051	\$12,192
6/30/94	\$14,440	\$16,242	\$12,233
7/31/94	\$14,670	\$16,395	\$12,266
8/31/94	\$14,792	\$16,353	\$12,317
9/30/94	\$14,779	\$16,433	\$12,349
10/31/94	\$14,864	\$16,679	\$12,358
11/30/94	\$14,864	\$16,469	\$12,374
12/31/94	\$14,755	\$16,508	\$12,374
1/31/95	\$14,658	\$16,841	\$12,423
2/28/95	\$14,888	\$17,276	\$12,473
3/31/95	\$15,155	\$18,155	\$12,514
4/30/95	\$15,494	\$18,444	\$12,555
5/31/95	\$15,869	\$18,958	\$12,580
6/30/95	\$15,940	\$19,077	\$12,605
7/31/95	\$16,041	\$19,167	\$12,605
8/31/95	\$15,839	\$18,635	\$12,639
9/30/95	\$16,191	\$19,054	\$12,662
10/31/95	\$16,455	\$19,241	\$12,704
11/30/95	\$16,594	\$19,455	\$12,695
12/31/95	\$16,921	\$19,696	\$12,687
1/31/96	\$16,845	\$19,494	\$12,761
2/29/96	\$16,644	\$19,380	\$12,803
3/31/96	\$16,694	\$19,350	\$12,869
4/30/96	\$16,820	\$19,279	\$12,918
5/31/96	\$16,908	\$19,298	\$12,943
6/30/96	\$17,135	\$19,467	\$12,951
7/31/96	\$17,204	\$19,825	\$12,976
8/31/96	\$17,421	\$19,908	\$13,001
9/30/96	\$17,694	\$20,017	\$13,042
10/31/96	\$18,048	\$20,415	\$13,083
11/30/96	\$18,484	\$20,706	\$13,108
12/31/96	\$18,552	\$20,562	\$13,108
1/31/97	\$18,320	\$20,048	\$13,149
2/28/97	\$18,239	\$19,909	\$13,189
3/31/97	\$18,171	\$19,758	\$13,222
4/30/97	\$18,266	\$19,647	\$13,237
5/31/97	\$18,416	\$20,110	\$13,229
6/30/97	\$18,615	\$20,339	\$13,245
7/31/97	\$18,747	\$20,264	\$13,261
8/31/97	\$18,689	\$20,239	\$13,286
9/30/97	\$19,040	\$20,688	\$13,320
10/31/97	\$18,806	\$21,127	\$13,353
11/30/97	\$18,879	\$20,873	\$13,345
12/31/97	\$19,011	\$20,850	\$13,333

GRAPHIC MATERIAL (26)

The following line graph hypothetically compares the performance of the U.S. Government Securities Fund to that of the Lehman Brothers Intermediate Government Bond Index and the Consumer Price Index, based on a \$10,000 investment from 3/14/89 to 12/31/97.

	U.S. Government Securities Fund	LB Interm Gov't Bond Index	CPI
3/14/89	\$10,000	\$ 10,000	\$ 10,000
3/31/89	\$10,000	\$ 10,026	\$ 10,032
4/30/89	\$10,000	\$ 10,228	\$ 10,097
5/31/89	\$10,000	\$ 10,426	\$ 10,155
6/30/89	\$10,050	\$ 10,692	\$ 10,179
7/31/89	\$10,190	\$ 10,909	\$ 10,203
8/31/89	\$10,080	\$ 10,761	\$ 10,220
9/30/89	\$10,140	\$ 10,813	\$ 10,252
10/31/89	\$10,370	\$ 11,040	\$ 10,302
11/30/89	\$10,470	\$ 11,149	\$ 10,326
12/31/89	\$10,540	\$ 11,182	\$ 10,343
1/31/90	\$10,420	\$ 11,112	\$ 10,449
2/28/90	\$10,480	\$ 11,153	\$ 10,498
3/31/90	\$10,510	\$ 11,167	\$ 10,556
4/30/90	\$10,398	\$ 11,130	\$ 10,573
5/31/90	\$10,671	\$ 11,368	\$ 10,597
6/30/90	\$10,793	\$ 11,518	\$ 10,655
7/31/90	\$10,964	\$ 11,680	\$ 10,695
8/31/90	\$10,894	\$ 11,637	\$ 10,794
9/30/90	\$10,974	\$ 11,741	\$ 10,884
10/31/90	\$11,096	\$ 11,904	\$ 10,950
11/30/90	\$11,318	\$ 12,084	\$ 10,974

12/31/90	\$11,480	\$	12,251	\$	10,974
1/31/91	\$11,652	\$	12,377	\$	11,039
2/28/91	\$11,753	\$	12,452	\$	11,056
3/31/91	\$11,813	\$	12,521	\$	11,073
4/30/91	\$11,904	\$	12,650	\$	11,089
5/31/91	\$11,995	\$	12,721	\$	11,122
6/30/91	\$12,011	\$	12,731	\$	11,155
7/31/91	\$12,178	\$	12,868	\$	11,171
8/31/91	\$12,398	\$	13,113	\$	11,204
9/30/91	\$12,649	\$	13,336	\$	11,253
10/31/91	\$12,806	\$	13,488	\$	11,270
11/30/91	\$12,890	\$	13,646	\$	11,303
12/31/91	\$13,235	\$	13,977	\$	11,311
1/31/92	\$13,046	\$	13,843	\$	11,328
2/29/92	\$13,162	\$	13,886	\$	11,368
3/31/92	\$13,067	\$	13,830	\$	11,426
4/30/92	\$13,172	\$	13,955	\$	11,442
5/31/92	\$13,465	\$	14,163	\$	11,458
6/30/92	\$13,672	\$	14,367	\$	11,500
7/31/92	\$13,953	\$	14,643	\$	11,524
8/31/92	\$14,116	\$	14,792	\$	11,556
9/30/92	\$14,278	\$	14,996	\$	11,588
10/31/92	\$14,040	\$	14,816	\$	11,629
11/30/92	\$14,072	\$	14,755	\$	11,645
12/31/92	\$14,332	\$	14,946	\$	11,637
1/31/93	\$14,635	\$	15,224	\$	11,694
2/28/93	\$14,895	\$	15,448	\$	11,735
3/31/93	\$14,971	\$	15,505	\$	11,776
4/30/93	\$15,057	\$	15,626	\$	11,809
5/31/93	\$15,101	\$	15,583	\$	11,826
6/30/93	\$15,374	\$	15,809	\$	11,842
7/31/93	\$15,476	\$	15,841	\$	11,842
8/31/93	\$15,702	\$	16,077	\$	11,875
9/30/93	\$15,702	\$	16,143	\$	11,900
10/31/93	\$15,781	\$	16,182	\$	11,949
11/30/93	\$15,577	\$	16,102	\$	11,957
12/31/93	\$15,724	\$	16,168	\$	11,957
1/31/94	\$15,928	\$	16,328	\$	11,990
2/28/94	\$15,611	\$	16,105	\$	12,030
3/31/94	\$15,058	\$	15,870	\$	12,071
4/30/94	\$14,911	\$	15,767	\$	12,088
5/31/94	\$14,934	\$	15,778	\$	12,097
6/30/94	\$14,761	\$	15,781	\$	12,138
7/31/94	\$15,129	\$	15,987	\$	12,171
8/31/94	\$15,118	\$	16,034	\$	12,219
9/30/94	\$14,809	\$	15,901	\$	12,252
10/31/94	\$14,738	\$	15,904	\$	12,261
11/30/94	\$14,738	\$	15,834	\$	12,277
12/31/94	\$14,928	\$	15,886	\$	12,277
1/31/95	\$15,260	\$	16,145	\$	12,326
2/28/95	\$15,676	\$	16,457	\$	12,375
3/31/95	\$15,759	\$	16,547	\$	12,416
4/30/95	\$15,996	\$	16,739	\$	12,457
5/31/95	\$16,697	\$	17,211	\$	12,482
6/30/95	\$16,788	\$	17,321	\$	12,507
7/31/95	\$16,737	\$	17,330	\$	12,507
8/31/95	\$16,953	\$	17,472	\$	12,539
9/30/95	\$17,132	\$	17,589	\$	12,565
10/31/95	\$17,361	\$	17,783	\$	12,606
11/30/95	\$17,590	\$	18,000	\$	12,597
12/31/95	\$17,832	\$	18,178	\$	12,588
1/31/96	\$17,947	\$	18,331	\$	12,663
2/29/96	\$17,641	\$	18,136	\$	12,703
3/31/96	\$17,514	\$	18,053	\$	12,769
4/30/96	\$17,399	\$	18,000	\$	12,819
5/31/96	\$17,323	\$	17,991	\$	12,843
6/30/96	\$17,571	\$	18,175	\$	12,851
7/31/96	\$17,613	\$	18,231	\$	12,875
8/31/96	\$17,585	\$	18,251	\$	12,900
9/30/96	\$17,928	\$	18,487	\$	12,941
10/31/96	\$18,312	\$	18,790	\$	12,983
11/30/96	\$18,587	\$	19,017	\$	13,007
12/31/96	\$18,477	\$	18,915	\$	13,007
1/31/97	\$18,559	\$	18,987	\$	13,049
2/28/97	\$18,600	\$	19,017	\$	13,089
3/31/97	\$18,504	\$	18,908	\$	13,122
4/30/97	\$18,779	\$	19,122	\$	13,138
5/31/97	\$18,957	\$	19,271	\$	13,130
6/30/97	\$19,167	\$	19,437	\$	13,146
7/31/97	\$19,588	\$	19,795	\$	13,161
8/31/97	\$19,457	\$	19,719	\$	13,186
9/30/97	\$19,718	\$	19,934	\$	13,219
10/31/97	\$19,950	\$	20,168	\$	13,253
11/30/97	\$20,008	\$	20,212	\$	13,245
12/31/97	\$20,197	\$	20,376	\$	13,229

The following line graph hypothetically compares the performance of the Zero Coupon 2000 Fund to that of the Merrill Lynch 5-Year Zero Index and the Consumer Price Index, based on a \$10,000 investment from 3/14/89 to 12/31/97.

	Zero Coupon 2000 Fund	ML 5-Yr Zero Index	CPI
3/14/89	\$10,000	\$ 10,000	\$ 10,000
3/31/89	\$10,000	\$ 10,040	\$ 10,032
4/30/89	\$10,000	\$ 10,257	\$ 10,097
5/31/89	\$9,990	\$ 10,571	\$ 10,155
6/30/89	\$10,560	\$ 10,951	\$ 10,179
7/31/89	\$10,790	\$ 11,344	\$ 10,203
8/31/89	\$10,460	\$ 11,021	\$ 10,220
9/30/89	\$10,480	\$ 11,066	\$ 10,252
10/31/89	\$10,910	\$ 11,389	\$ 10,302
11/30/89	\$11,010	\$ 11,534	\$ 10,326
12/31/89	\$11,080	\$ 11,543	\$ 10,343
1/31/90	\$10,610	\$ 11,346	\$ 10,449
2/28/90	\$10,600	\$ 11,357	\$ 10,498
3/31/90	\$10,592	\$ 11,356	\$ 10,556
4/30/90	\$10,170	\$ 11,240	\$ 10,573
5/31/90	\$10,664	\$ 11,582	\$ 10,597
6/30/90	\$10,932	\$ 11,771	\$ 10,655
7/31/90	\$11,076	\$ 11,979	\$ 10,695
8/31/90	\$10,582	\$ 11,822	\$ 10,794
9/30/90	\$10,715	\$ 11,935	\$ 10,884
10/31/90	\$10,973	\$ 12,179	\$ 10,950
11/30/90	\$11,518	\$ 12,504	\$ 10,974
12/31/90	\$11,734	\$ 12,721	\$ 10,974
1/31/91	\$11,868	\$ 12,850	\$ 11,039
2/28/91	\$11,889	\$ 12,895	\$ 11,056
3/31/91	\$11,868	\$ 12,943	\$ 11,073
4/30/91	\$12,064	\$ 13,149	\$ 11,089
5/31/91	\$12,054	\$ 13,190	\$ 11,122
6/30/91	\$11,987	\$ 13,162	\$ 11,155
7/31/91	\$12,147	\$ 13,350	\$ 11,171
8/31/91	\$12,615	\$ 13,748	\$ 11,204
9/30/91	\$13,072	\$ 14,100	\$ 11,253
10/31/91	\$13,157	\$ 14,321	\$ 11,270
11/30/91	\$13,338	\$ 14,566	\$ 11,303
12/31/91	\$13,933	\$ 14,914	\$ 11,311
1/31/92	\$13,487	\$ 14,668	\$ 11,328
2/29/92	\$13,572	\$ 14,693	\$ 11,368
3/31/92	\$13,465	\$ 14,546	\$ 11,426
4/30/92	\$13,519	\$ 14,670	\$ 11,442
5/31/92	\$13,848	\$ 15,035	\$ 11,458
6/30/92	\$14,249	\$ 15,363	\$ 11,500
7/31/92	\$14,880	\$ 15,802	\$ 11,524
8/31/92	\$15,080	\$ 16,060	\$ 11,556
9/30/92	\$15,501	\$ 16,410	\$ 11,588
10/31/92	\$15,102	\$ 16,049	\$ 11,629
11/30/92	\$14,947	\$ 15,869	\$ 11,645
12/31/92	\$15,379	\$ 16,164	\$ 11,637
1/31/93	\$15,789	\$ 16,659	\$ 11,694
2/28/93	\$16,387	\$ 17,051	\$ 11,735
3/31/93	\$16,587	\$ 17,124	\$ 11,776
4/30/93	\$16,664	\$ 17,328	\$ 11,809
5/31/93	\$16,653	\$ 17,239	\$ 11,826
6/30/93	\$17,308	\$ 17,631	\$ 11,842
7/31/93	\$17,412	\$ 17,645	\$ 11,842
8/31/93	\$17,863	\$ 18,059	\$ 11,875
9/30/93	\$17,979	\$ 18,148	\$ 11,900
10/31/93	\$18,129	\$ 18,157	\$ 11,949
11/30/93	\$17,701	\$ 17,974	\$ 11,957
12/31/93	\$17,863	\$ 18,069	\$ 11,957
1/31/94	\$18,176	\$ 18,324	\$ 11,990
2/28/94	\$17,528	\$ 17,895	\$ 12,030
3/31/94	\$16,938	\$ 17,433	\$ 12,071
4/30/94	\$16,729	\$ 17,220	\$ 12,088
5/31/94	\$16,729	\$ 17,233	\$ 12,097
6/30/94	\$16,694	\$ 17,196	\$ 12,138
7/31/94	\$17,023	\$ 17,513	\$ 12,171
8/31/94	\$17,023	\$ 17,571	\$ 12,219
9/30/94	\$16,694	\$ 17,272	\$ 12,252
10/31/94	\$16,596	\$ 17,236	\$ 12,261
11/30/94	\$16,511	\$ 17,101	\$ 12,277
12/31/94	\$16,621	\$ 17,255	\$ 12,277
1/31/95	\$16,950	\$ 17,422	\$ 12,326
2/28/95	\$17,475	\$ 17,924	\$ 12,375
3/31/95	\$17,573	\$ 17,998	\$ 12,416
4/30/95	\$17,829	\$ 18,278	\$ 12,457
5/31/95	\$18,756	\$ 19,149	\$ 12,482
6/30/95	\$18,909	\$ 19,306	\$ 12,507
7/31/95	\$18,781	\$ 19,211	\$ 12,507

8/31/95	\$18,998	\$ 19,395	\$ 12,539
9/30/95	\$19,138	\$ 19,543	\$ 12,565
10/31/95	\$19,482	\$ 19,850	\$ 12,606
11/30/95	\$19,814	\$ 20,219	\$ 12,597
12/31/95	\$20,056	\$ 20,474	\$ 12,588
1/31/96	\$20,286	\$ 20,697	\$ 12,663
2/29/96	\$19,890	\$ 20,303	\$ 12,703
3/31/96	\$19,648	\$ 20,046	\$ 12,769
4/30/96	\$19,495	\$ 19,819	\$ 12,819
5/31/96	\$19,406	\$ 19,722	\$ 12,843
6/30/96	\$19,637	\$ 20,012	\$ 12,851
7/31/96	\$19,691	\$ 19,694	\$ 12,875
8/31/96	\$19,664	\$ 19,962	\$ 12,900
9/30/96	\$19,988	\$ 20,331	\$ 12,941
10/31/96	\$20,435	\$ 20,853	\$ 12,983
11/30/96	\$20,746	\$ 21,214	\$ 13,007
12/31/96	\$20,543	\$ 20,940	\$ 13,007
1/31/97	\$20,610	\$ 20,982	\$ 13,049
2/28/97	\$20,610	\$ 20,963	\$ 13,089
3/31/97	\$20,448	\$ 20,716	\$ 13,122
4/30/97	\$20,678	\$ 21,019	\$ 13,138
5/31/97	\$20,854	\$ 21,212	\$ 13,130
6/30/97	\$21,029	\$ 21,443	\$ 13,146
7/31/97	\$21,465	\$ 22,091	\$ 13,161
8/31/97	\$21,348	\$ 21,817	\$ 13,186
9/30/97	\$21,581	\$ 22,170	\$ 13,219
10/31/97	\$21,828	\$ 22,552	\$ 13,253
11/30/97	\$21,843	\$ 22,556	\$ 13,245
12/31/97	\$22,002	\$ 22,842	\$ 13,229

GRAPHIC MATERIAL (28)

The following line graph hypothetically compares the performance of the Zero Coupon 2005 Fund to that of the Merrill Lynch 10-Year Zero Index and the Consumer Price Index, based on a \$10,000 investment from 3/14/89 to 12/31/97.

	Zero Coupon 2005 Fund	ML 10-Yr Zero Index	CPI
3/14/89	\$10,000	\$ 10,000	\$ 10,000
3/31/89	\$10,000	\$ 10,064	\$ 10,032
4/30/89	\$10,000	\$ 10,339	\$ 10,097
5/31/89	\$10,070	\$ 10,762	\$ 10,155
6/30/89	\$11,310	\$ 11,405	\$ 10,179
7/31/89	\$11,290	\$ 11,714	\$ 10,203
8/31/89	\$10,850	\$ 11,360	\$ 10,220
9/30/89	\$10,870	\$ 11,408	\$ 10,252
10/31/89	\$11,500	\$ 11,874	\$ 10,302
11/30/89	\$11,580	\$ 11,973	\$ 10,326
12/31/89	\$11,530	\$ 11,972	\$ 10,343
1/31/90	\$10,630	\$ 11,486	\$ 10,449
2/28/90	\$10,640	\$ 11,460	\$ 10,498
3/31/90	\$10,598	\$ 11,451	\$ 10,556
4/30/90	\$10,024	\$ 11,131	\$ 10,573
5/31/90	\$10,746	\$ 11,663	\$ 10,597
6/30/90	\$11,065	\$ 11,939	\$ 10,655
7/31/90	\$11,171	\$ 12,069	\$ 10,695
8/31/90	\$10,290	\$ 11,498	\$ 10,794
9/30/90	\$10,502	\$ 11,629	\$ 10,884
10/31/90	\$10,746	\$ 12,005	\$ 10,950
11/30/90	\$11,521	\$ 12,527	\$ 10,974
12/31/90	\$11,840	\$ 12,809	\$ 10,974
1/31/91	\$11,978	\$ 12,938	\$ 11,039
2/28/91	\$11,978	\$ 12,955	\$ 11,056
3/31/91	\$11,893	\$ 13,047	\$ 11,073
4/30/91	\$12,127	\$ 13,260	\$ 11,089
5/31/91	\$11,999	\$ 13,244	\$ 11,122
6/30/91	\$11,857	\$ 13,151	\$ 11,155
7/31/91	\$12,066	\$ 13,383	\$ 11,171
8/31/91	\$12,663	\$ 13,914	\$ 11,204
9/30/91	\$13,292	\$ 14,393	\$ 11,253
10/31/91	\$13,237	\$ 14,462	\$ 11,270
11/30/91	\$13,303	\$ 14,666	\$ 11,303
12/31/91	\$14,065	\$ 15,468	\$ 11,311
1/31/92	\$13,579	\$ 14,821	\$ 11,328
2/29/92	\$13,612	\$ 14,910	\$ 11,368
3/31/92	\$13,513	\$ 14,718	\$ 11,426
4/30/92	\$13,480	\$ 14,658	\$ 11,442
5/31/92	\$13,976	\$ 15,084	\$ 11,458
6/30/92	\$14,216	\$ 15,437	\$ 11,500
7/31/92	\$15,016	\$ 16,152	\$ 11,524
8/31/92	\$15,132	\$ 16,334	\$ 11,556
9/30/92	\$15,711	\$ 16,792	\$ 11,588
10/31/92	\$15,143	\$ 16,303	\$ 11,629
11/30/92	\$15,271	\$ 16,288	\$ 11,645
12/31/92	\$15,793	\$ 16,852	\$ 11,637
1/31/93	\$16,291	\$ 17,524	\$ 11,694

2/28/93	\$17,196	\$ 18,210	\$ 11,735
3/31/93	\$17,358	\$ 18,261	\$ 11,776
4/30/93	\$17,346	\$ 18,516	\$ 11,809
5/31/93	\$17,346	\$ 18,414	\$ 11,826
6/30/93	\$18,520	\$ 19,425	\$ 11,842
7/31/93	\$18,724	\$ 19,585	\$ 11,842
8/31/93	\$19,360	\$ 20,333	\$ 11,875
9/30/93	\$19,564	\$ 20,575	\$ 11,900
10/31/93	\$19,840	\$ 20,661	\$ 11,949
11/30/93	\$19,084	\$ 19,973	\$ 11,957
12/31/93	\$19,300	\$ 20,149	\$ 11,957
1/31/94	\$19,864	\$ 20,737	\$ 11,990
2/28/94	\$18,748	\$ 19,748	\$ 12,030
3/31/94	\$17,728	\$ 18,733	\$ 12,071
4/30/94	\$17,452	\$ 18,439	\$ 12,088
5/31/94	\$17,416	\$ 18,347	\$ 12,097
6/30/94	\$17,163	\$ 18,209	\$ 12,138
7/31/94	\$17,691	\$ 18,732	\$ 12,171
8/31/94	\$17,641	\$ 18,764	\$ 12,219
9/30/94	\$16,999	\$ 18,088	\$ 12,252
10/31/94	\$16,899	\$ 17,956	\$ 12,261
11/30/94	\$16,999	\$ 18,042	\$ 12,277
12/31/94	\$17,314	\$ 18,356	\$ 12,277
1/31/95	\$17,704	\$ 18,841	\$ 12,326
2/28/95	\$18,295	\$ 19,566	\$ 12,375
3/31/95	\$18,446	\$ 19,701	\$ 12,416
4/30/95	\$18,862	\$ 20,085	\$ 12,457
5/31/95	\$20,497	\$ 21,768	\$ 12,482
6/30/95	\$20,647	\$ 22,056	\$ 12,507
7/31/95	\$20,279	\$ 21,692	\$ 12,507
8/31/95	\$20,712	\$ 22,121	\$ 12,539
9/30/95	\$21,080	\$ 22,486	\$ 12,565
10/31/95	\$21,657	\$ 23,055	\$ 12,606
11/30/95	\$22,248	\$ 23,761	\$ 12,597
12/31/95	\$22,812	\$ 24,341	\$ 12,588
1/31/96	\$22,891	\$ 24,392	\$ 12,663
2/29/96	\$21,802	\$ 23,233	\$ 12,703
3/31/96	\$21,461	\$ 22,787	\$ 12,769
4/30/96	\$21,067	\$ 22,251	\$ 12,819
5/31/96	\$20,830	\$ 22,109	\$ 12,843
6/30/96	\$21,295	\$ 22,604	\$ 12,851
7/31/96	\$21,295	\$ 22,598	\$ 12,875
8/31/96	\$21,101	\$ 22,353	\$ 12,900
9/30/96	\$21,670	\$ 23,017	\$ 12,941
10/31/96	\$22,531	\$ 23,959	\$ 12,983
11/30/96	\$23,197	\$ 24,776	\$ 13,007
12/31/96	\$22,698	\$ 24,129	\$ 13,007
1/31/97	\$22,614	\$ 24,037	\$ 13,049
2/28/97	\$22,587	\$ 24,016	\$ 13,089
3/31/97	\$22,115	\$ 23,355	\$ 13,122
4/30/97	\$22,614	\$ 23,960	\$ 13,138
5/31/97	\$22,850	\$ 24,257	\$ 13,130
6/30/97	\$23,188	\$ 24,716	\$ 13,146
7/31/97	\$24,285	\$ 26,075	\$ 13,161
8/31/97	\$23,737	\$ 25,314	\$ 13,186
9/30/97	\$24,285	\$ 26,040	\$ 13,219
10/31/97	\$24,893	\$ 26,827	\$ 13,253
11/30/97	\$24,923	\$ 26,990	\$ 13,245
12/31/97	\$25,279	\$ 27,519	\$ 13,229

GRAPHIC MATERIAL (29)

The following line graph hypothetically compares the performance of the Zero Coupon 2010 Fund to that of the Merrill Lynch 20-Year Zero Index, the Merrill Lynch 10-Year Zero Index and the Consumer Price Index, based on a \$10,000 investment from 3/14/89 to 12/31/97.

	Zero Coupon 2010 Fund	ML 10-Yr Zero Index	ML 20-Yr Zero Index	CPI
3/14/89	\$10,000	\$ 10,000	\$ 10,000	\$ 10,000
3/31/89	\$10,000	\$ 10,064	\$ 10,109	\$ 10,032
4/30/89	\$10,000	\$ 10,339	\$ 10,494	\$ 10,097
5/31/89	\$10,000	\$ 10,762	\$ 11,218	\$ 10,155
6/30/89	\$11,290	\$ 11,405	\$ 12,388	\$ 10,179
7/31/89	\$11,250	\$ 11,714	\$ 12,458	\$ 10,203
8/31/89	\$10,790	\$ 11,360	\$ 11,840	\$ 10,220
9/30/89	\$10,860	\$ 11,408	\$ 11,945	\$ 10,252
10/31/89	\$11,630	\$ 11,874	\$ 12,745	\$ 10,302
11/30/89	\$11,720	\$ 11,973	\$ 12,972	\$ 10,326
12/31/89	\$11,610	\$ 11,972	\$ 12,904	\$ 10,343
1/31/90	\$10,580	\$ 11,486	\$ 11,934	\$ 10,449
2/28/90	\$10,530	\$ 11,460	\$ 11,668	\$ 10,498
3/31/90	\$10,400	\$ 11,451	\$ 11,557	\$ 10,556
4/30/90	\$9,652	\$ 11,131	\$ 10,869	\$ 10,573
5/31/90	\$10,617	\$ 11,663	\$ 11,932	\$ 10,597
6/30/90	\$11,064	\$ 11,939	\$ 12,425	\$ 10,655

7/31/90	\$11,136	\$	12,069	\$	12,374	\$	10,695
8/31/90	\$9,912	\$	11,498	\$	11,011	\$	10,794
9/30/90	\$10,150	\$	11,629	\$	11,240	\$	10,884
10/31/90	\$10,358	\$	12,005	\$	11,566	\$	10,950
11/30/90	\$11,271	\$	12,527	\$	12,608	\$	10,974
12/31/90	\$11,676	\$	12,809	\$	12,940	\$	10,974
1/31/91	\$11,853	\$	12,938	\$	13,206	\$	11,039
2/28/91	\$11,811	\$	12,955	\$	13,087	\$	11,056
3/31/91	\$11,666	\$	13,047	\$	13,182	\$	11,073
4/30/91	\$11,946	\$	13,260	\$	13,421	\$	11,089
5/31/91	\$11,686	\$	13,244	\$	13,267	\$	11,122
6/30/91	\$11,412	\$	13,151	\$	13,000	\$	11,155
7/31/91	\$11,619	\$	13,383	\$	13,273	\$	11,171
8/31/91	\$12,362	\$	13,914	\$	14,056	\$	11,204
9/30/91	\$13,061	\$	14,393	\$	14,781	\$	11,253
10/31/91	\$12,864	\$	14,462	\$	14,549	\$	11,270
11/30/91	\$12,744	\$	14,666	\$	14,670	\$	11,303
12/31/91	\$13,749	\$	15,468	\$	15,854	\$	11,311
1/31/92	\$13,246	\$	14,821	\$	15,164	\$	11,328
2/29/92	\$13,290	\$	14,910	\$	15,233	\$	11,368
3/31/92	\$13,235	\$	14,718	\$	14,986	\$	11,426
4/30/92	\$13,050	\$	14,658	\$	14,715	\$	11,442
5/31/92	\$13,759	\$	15,084	\$	15,337	\$	11,458
6/30/92	\$13,776	\$	15,437	\$	15,380	\$	11,500
7/31/92	\$14,598	\$	16,152	\$	16,413	\$	11,524
8/31/92	\$14,679	\$	16,334	\$	16,359	\$	11,556
9/30/92	\$14,923	\$	16,792	\$	16,307	\$	11,588
10/31/92	\$14,378	\$	16,303	\$	15,968	\$	11,629
11/30/92	\$14,772	\$	16,288	\$	16,341	\$	11,645
12/31/92	\$15,467	\$	16,852	\$	17,034	\$	11,637
1/31/93	\$15,792	\$	17,524	\$	17,595	\$	11,694
2/28/93	\$16,707	\$	18,210	\$	18,677	\$	11,735
3/31/93	\$17,054	\$	18,261	\$	18,546	\$	11,776
4/30/93	\$16,881	\$	18,516	\$	18,774	\$	11,809
5/31/93	\$16,985	\$	18,414	\$	18,956	\$	11,826
6/30/93	\$18,058	\$	19,425	\$	20,442	\$	11,842
7/31/93	\$18,664	\$	19,585	\$	21,338	\$	11,842
8/31/93	\$19,617	\$	20,333	\$	22,712	\$	11,875
9/30/93	\$19,778	\$	20,575	\$	22,639	\$	11,900
10/31/93	\$20,162	\$	20,661	\$	23,054	\$	11,949
11/30/93	\$19,332	\$	19,973	\$	22,125	\$	11,957
12/31/93	\$19,407	\$	20,149	\$	22,047	\$	11,957
1/31/94	\$20,186	\$	20,737	\$	22,929	\$	11,990
2/28/94	\$18,788	\$	19,748	\$	21,356	\$	12,030
3/31/94	\$17,662	\$	18,733	\$	20,013	\$	12,071
4/30/94	\$17,365	\$	18,439	\$	19,496	\$	12,088
5/31/94	\$17,092	\$	18,347	\$	18,900	\$	12,097
6/30/94	\$16,534	\$	18,209	\$	18,599	\$	12,138
7/31/94	\$17,392	\$	18,732	\$	19,779	\$	12,171
8/31/94	\$17,041	\$	18,764	\$	19,179	\$	12,219
9/30/94	\$16,248	\$	18,088	\$	18,101	\$	12,252
10/31/94	\$16,131	\$	17,956	\$	17,996	\$	12,261
11/30/94	\$16,417	\$	18,042	\$	18,436	\$	12,277
12/31/94	\$16,924	\$	18,356	\$	19,119	\$	12,277
1/31/95	\$17,366	\$	18,841	\$	19,856	\$	12,326
2/28/95	\$17,886	\$	19,566	\$	20,479	\$	12,375
3/31/95	\$18,068	\$	19,701	\$	20,733	\$	12,416
4/30/95	\$18,561	\$	20,085	\$	21,191	\$	12,457
5/31/95	\$20,862	\$	21,768	\$	24,264	\$	12,482
6/30/95	\$20,964	\$	22,056	\$	24,591	\$	12,507
7/31/95	\$20,415	\$	21,692	\$	23,898	\$	12,507
8/31/95	\$21,018	\$	22,121	\$	24,842	\$	12,539
9/30/95	\$21,527	\$	22,486	\$	25,562	\$	12,565
10/31/95	\$22,532	\$	23,055	\$	26,984	\$	12,606
11/30/95	\$23,295	\$	23,761	\$	27,998	\$	12,597
12/31/95	\$24,166	\$	24,341	\$	29,297	\$	12,588
1/31/96	\$24,112	\$	24,392	\$	29,016	\$	12,663
2/29/96	\$22,264	\$	23,233	\$	26,341	\$	12,703
3/31/96	\$21,728	\$	22,787	\$	25,335	\$	12,769
4/30/96	\$21,152	\$	22,251	\$	24,417	\$	12,819
5/31/96	\$20,951	\$	22,109	\$	24,420	\$	12,843
6/30/96	\$21,596	\$	22,604	\$	25,270	\$	12,851
7/31/96	\$21,553	\$	22,598	\$	25,204	\$	12,875
8/31/96	\$21,077	\$	22,353	\$	24,370	\$	12,900
9/30/96	\$21,928	\$	23,017	\$	25,583	\$	12,941
10/31/96	\$23,155	\$	23,959	\$	27,321	\$	12,983
11/30/96	\$24,224	\$	24,776	\$	28,946	\$	13,007
12/31/96	\$23,516	\$	24,129	\$	27,644	\$	13,007
1/31/97	\$23,170	\$	24,037	\$	27,138	\$	13,049
2/28/97	\$23,127	\$	24,016	\$	27,016	\$	13,089
3/31/97	\$22,434	\$	23,355	\$	25,803	\$	13,122
4/30/97	\$23,155	\$	23,960	\$	26,775	\$	13,138
5/31/97	\$23,444	\$	24,257	\$	27,164	\$	13,130
6/30/97	\$23,954	\$	24,716	\$	28,204	\$	13,146
7/31/97	\$25,798	\$	26,075	\$	31,275	\$	13,161
8/31/97	\$24,738	\$	25,314	\$	29,496	\$	13,186

9/30/97	\$25,645	\$	26,040	\$	31,083	\$	13,219
10/31/97	\$26,644	\$	26,827	\$	32,851	\$	13,253
11/30/97	\$26,859	\$	26,990	\$	33,879	\$	13,245
12/31/97	\$27,413	\$	27,519	\$	34,747	\$	13,229