

# ANNUAL REPORTS

**For Period Ended December 31, 2018**

This booklet contains the CMFG Variable Life Insurance Account's and CMFG Variable Annuity Account's audited financial statements and the annual reports for the following mutual funds in which each of the CMFG Variable Life Insurance Account and CMFG Variable Annuity Account invests:

**MFS® Strategic Income Portfolio** of the MFS® Variable Insurance Trust.

**Oppenheimer Global Strategic Income Fund/VA** of the Oppenheimer Variable Account Funds.

**Templeton Developing Markets VIP Fund** of the Franklin Templeton Variable Insurance Products Trust.

**T. Rowe Price International Stock Portfolio** of the T. Rowe Price International Series, Inc.

MEMBERS® Variable Annuity  
MEMBERS® Variable Universal Life  
MEMBERS® Variable Universal Life II  
Ultra Vers-ALL LIFE<sup>SM</sup>

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## ANNUAL REPORTS

MEMBERS® Variable Universal Life II and MEMBERS® Variable Annuity no longer accept new payments and do not allow transfers of money from other subaccounts to the subaccounts that invest in the mutual funds described in this booklet.

MEMBERS® Variable Universal Life and Ultra Vers-ALL LIFE accepts new premium for the T. Rowe Price International stock subaccount and also allows transfers of money to the subaccount that invests in that fund.

If you own a MEMBERS® Variable Annuity, MEMBERS® Variable Universal Life, MEMBERS® Variable Universal Life II, or Ultra Vers-ALL LIFE, you will also receive a booklet that contains the annual report for that product as well as an annual report for other mutual funds in which the CMFG Variable Annuity Account and CMFG Variable Life Insurance Account invest.

To reduce service expenses, CMFG Life Insurance Company may send only one copy of this booklet per household, regardless of the number of owners at the household. However, any owner may obtain additional copies of this booklet upon request to CMFG Life Insurance Company.

If you have questions, please call CMFG Life Insurance Company at (800) 798-5500.

As with all variable annuity contracts, variable life insurance policies and mutual funds, the Securities and Exchange Commission ("SEC") has not approved or disapproved of these securities, nor does the SEC guarantee the accuracy or adequacy of any prospectus. Any statement to the contrary is a criminal offense.

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
CMFG Life Insurance Company and  
Policy Owners of CMFG Variable Life Insurance Account:

### **Opinion on the Financial Statements and Financial Highlights**

We have audited the accompanying statements of assets and liabilities for each of the subaccounts of CMFG Variable Life Insurance Account (the "Account") listed in Appendix A, as of December 31, 2018, the related statements of operations, the statements of changes in net assets, the financial highlights for each of the periods presented in Appendix A and the related notes. In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of each of the subaccounts comprising the Account as of December 31, 2018, and the results of their operations, the changes in their net assets, and the financial highlights for each of the periods presented in Appendix A, in conformity with accounting principles generally accepted in the United States of America.

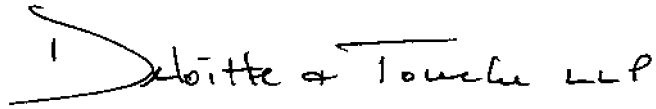
### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Account is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included

confirmation of securities owned as of December 31, 2018, by correspondence with the Account's fund managers. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

February 25, 2019

We have served as the auditor of CMFG Variable Life Insurance Account since 2004.

**CMFG Variable Life Insurance Account**

**Appendix A**

Subaccount	Statement of Assets and Liabilities As of	Statement of Operations For The	Statement Of Changes in Net Assets For the	Financial Highlights For The
Templeton Developing Markets VIP Fund, Class 2, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
MFS® Strategic Income Portfolio, Initial Class, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Openheimer Global Strategic Income Fund(VA, Non-SERVICE Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
T. Rowe Price International Stock Portfolio, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Core Bond Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Conservative Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Diversified Income Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series High Income Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series International Stock Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Growth Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Value Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Mid Cap Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Moderate Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Vanguard VIF Money Market Portfolio, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Two Years Ended December 31, 2018 and Period from February 12, 2016* to December 31, 2016

\*Date Represents Commencement Of Operations

**CMFG Variable Life Insurance Account**  
**Statements of Assets and Liabilities**  
**As of December 31, 2018**

	Templeton Developing Markets VIP Fund, Class 2, Subaccount	MFS® Strategic Income Portfolio, Initial Class, Subaccount	Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	T. Rowe Price International Stock Portfolio, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 9,760	\$ 216,685	\$ 7,943	\$ 5,439,891
Total assets	9,760	216,685	7,943	5,439,891
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 9,760	\$ 216,685	\$ 7,943	\$ 5,439,891
<b>Net assets</b>				
Net assets: type 1	\$ -	\$ 216,503	\$ -	\$ 5,365,332
Net assets: type 2	9,760	182	7,943	74,559
Total net assets	\$ 9,760	\$ 216,685	\$ 7,943	\$ 5,439,891
Number of shares outstanding	1,143	23,400	1,705	417,170
Net asset value per share	\$ 8.54	\$ 9.26	\$ 4.66	\$ 13.04
Cost of mutual fund shares	\$ 8,413	\$ 233,472	\$ 9,258	\$ 5,898,597

	Ultra Series Aggressive Allocation Fund, Class I, Subaccount	Ultra Series Core Bond Fund, Class I, Subaccount	Ultra Series Conservative Allocation Fund, Class I, Subaccount	Ultra Series Diversified Income Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 1,046,624	\$ 5,574,270	\$ 145,114	\$ 50,758,408
Total assets	1,046,624	5,574,270	145,114	50,758,408
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 1,046,624	\$ 5,574,270	\$ 145,114	\$ 50,758,408
<b>Net assets</b>				
Net assets: type 1	\$ -	\$ 3,621,347	\$ -	\$ 43,351,872
Net assets: type 2	1,046,624	1,952,923	145,114	7,406,536
Total net assets	\$ 1,046,624	\$ 5,574,270	\$ 145,114	\$ 50,758,408
Number of shares outstanding	131,367	593,620	15,756	2,940,539
Net asset value per share	\$ 7.97	\$ 9.39	\$ 9.21	\$ 17.26
Cost of mutual fund shares	\$ 1,251,742	\$ 6,065,022	\$ 161,405	\$ 51,747,316

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Assets and Liabilities (continued)**  
**As of December 31, 2018**

	Ultra Series High Income Fund, Class I, Subaccount	Ultra Series International Stock Fund, Class I, Subaccount	Ultra Series Large Cap Growth Fund, Class I, Subaccount	Ultra Series Large Cap Value Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 866,547	\$ 2,233,391	\$ 38,893,652	\$ 63,709,578
Total assets	866,547	2,233,391	38,893,652	63,709,578
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 866,547	\$ 2,233,391	\$ 38,893,652	\$ 63,709,578
<b>Net assets</b>				
Net assets: type 1	\$ -	\$ -	\$ 30,779,140	\$ 56,209,454
Net assets: type 2	866,547	2,233,391	8,114,512	7,500,124
Total net assets	\$ 866,547	\$ 2,233,391	\$ 38,893,652	\$ 63,709,578
Number of shares outstanding	109,497	224,803	2,262,087	2,915,130
Net asset value per share	\$ 7.91	\$ 9.93	\$ 17.19	\$ 21.85
Cost of mutual fund shares	\$ 1,012,742	\$ 2,470,803	\$ 47,089,626	\$ 77,200,457

	Ultra Series Mid Cap Fund, Class I, Subaccount	Ultra Series Moderate Allocation Fund, Class I, Subaccount	Vanguard VIF Money Market Portfolio, Subaccount
<b>Assets</b>			
Investments in mutual funds at fair value	\$ 19,267,322	\$ 2,004,433	\$ 1,884,675
Total assets	19,267,322	2,004,433	1,884,675
<b>Liabilities</b>			
	-	-	-
Net assets	\$ 19,267,322	\$ 2,004,433	\$ 1,884,675
<b>Net assets</b>			
Net assets: type 1	\$ 9,965,046	\$ -	\$ 1,046,064
Net assets: type 2	9,302,276	2,004,433	838,611
Total net assets	\$ 19,267,322	\$ 2,004,433	\$ 1,884,675
Number of shares outstanding	1,268,756	217,925	1,884,675
Net asset value per share	\$ 15.19	\$ 9.20	\$ 1.00
Cost of mutual fund shares	\$ 20,284,359	\$ 2,231,128	\$ 1,884,675

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Operations**  
**For the Year Ended December 31, 2018**

	Templeton Developing Markets VIP Fund, Class 2, Subaccount	MFS® Strategic Income Portfolio, Initial Class, Subaccount	Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	T. Rowe Price International Stock Portfolio, Subaccount
<b>Investment income (loss)</b>				
Dividend Income	\$ 102	\$ 8,950	\$ 411	\$ 84,132
Mortality and expense charges (note 3)	(104)	(2,050)	(76)	(57,284)
Net investment income (loss)	(2)	6,900	335	26,848
<b>Realized gain (loss) on sale of fund shares</b>				
Net realized gain (loss) on sale of fund shares	297	(949)	(97)	66,411
Realized gain distributions	-	-	-	592,579
Net realized gain (loss) on investments	297	(949)	(97)	658,990
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(2,315)	(12,772)	(683)	(1,656,255)
<b>Net increase (decrease) in net assets resulting from operations</b>	<u>\$ (2,020)</u>	<u>\$ (6,821)</u>	<u>\$ (445)</u>	<u>\$ (970,417)</u>

	Ultra Series Aggressive Allocation Fund, Class I, Subaccount	Ultra Series Core Bond Fund, Class I, Subaccount	Ultra Series Conservative Allocation Fund, Class I, Subaccount	Ultra Series Diversified Income Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend Income	\$ 20,767	\$ 180,157	\$ 3,681	\$ 1,265,871
Mortality and expense charges (note 3)	(10,283)	(52,632)	(1,393)	(486,460)
Net investment income (loss)	10,484	127,525	2,288	779,411
<b>Realized gain (loss) on sale of fund shares</b>				
Net realized gain (loss) on sale of fund shares	2,594	(44,105)	(436)	474,259
Realized gain distributions	148,311	-	7,333	4,321,894
Net realized gain (loss) on investments	150,905	(44,105)	6,897	4,796,153
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(240,376)	(178,532)	(14,213)	(6,437,428)
<b>Net increase (decrease) in net assets resulting from operations</b>	<u>\$ (78,987)</u>	<u>\$ (95,112)</u>	<u>\$ (5,028)</u>	<u>\$ (861,864)</u>

See accompanying notes to financial statements



**CMFG Variable Life Insurance Account**  
**Statements of Operations (continued)**  
**For the Year Ended December 31, 2018**

	Ultra Series High Income Fund, Class I, Subaccount	Ultra Series International Stock Fund, Class I, Subaccount	Ultra Series Large Cap Growth Fund, Class I, Subaccount	Ultra Series Large Cap Value Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend Income	\$ 48,649	\$ 41,562	\$ 289,811	\$ 1,176,055
Mortality and expense charges (note 3)	(8,545)	(23,114)	(376,317)	(690,276)
Net investment income (loss)	40,104	18,448	(86,506)	485,779
<b>Realized gain (loss) on sale of fund shares</b>				
Net realized gain (loss) on sale of fund shares	(11,240)	11,889	386,385	256,796
Realized gain distributions	-	-	13,228,391	6,676,916
Net realized gain (loss) on investments	(11,240)	11,889	13,614,776	6,933,712
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(66,363)	(405,307)	(13,954,196)	(17,254,577)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (37,499)	\$ (374,970)	\$ (425,926)	\$ (9,835,086)

	Ultra Series Mid Cap Fund, Class I, Subaccount	Ultra Series Moderate Allocation Fund, Class I, Subaccount	Vanguard VIF Money Market Portfolio, Subaccount
<b>Investment income (loss)</b>			
Dividend Income	\$ -	\$ 23,565	\$ 35,486
Mortality and expense charges (note 3)	(190,775)	(19,379)	(16,578)
Net investment income (loss)	(190,775)	4,186	18,908
<b>Realized gain (loss) on sale of fund shares</b>			
Net realized gain (loss) on sale of fund shares	315,336	6,421	-
Realized gain distributions	3,534,790	203,768	-
Net realized gain (loss) on investments	3,850,126	210,189	-
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(4,089,077)	(325,535)	-
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (429,726)	\$ (111,160)	\$ 18,908

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Changes in Net Assets**  
**For the Years Ended December 31,**

	Templeton Developing Markets VIP Fund, Class 2, Subaccount		MFS® Strategic Income Portfolio, Initial Class, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (2)	\$ 10	\$ 6,900	\$ 9,094
Net realized gain (loss) on investments	297	324	(949)	(162)
Net change in unrealized appreciation (depreciation) on investments	(2,315)	3,616	(12,772)	3,681
Net increase (decrease) in net assets resulting from operations	(2,020)	3,950	(6,821)	12,613
<b>Contract transactions</b>				
Payments received from contract owners	-	-	-	-
Transfers between subaccounts (including fixed accounts), net	(3)	(6)	(84)	(358)
Payment for contract benefits and terminations	(678)	(606)	(995)	(1,480)
Contract charges and fees	(507)	(798)	(15,140)	(14,755)
Net increase (decrease) in net assets from contract transactions	(1,188)	(1,410)	(16,219)	(16,593)
Total increase (decrease) in net assets	(3,208)	2,540	(23,040)	(3,980)
<b>Net assets</b>				
Beginning of period	12,968	10,428	239,725	243,705
End of period	\$ 9,760	\$ 12,968	\$ 216,685	\$ 239,725

	Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount		T. Rowe Price International Stock Portfolio, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 335	\$ 136	\$ 26,848	\$ 13,113
Net realized gain (loss) on investments	(97)	(68)	658,990	358,283
Net change in unrealized appreciation (depreciation) on investments	(683)	439	(1,656,255)	1,086,461
Net increase (decrease) in net assets resulting from operations	(445)	507	(970,417)	1,457,857
<b>Contract transactions</b>				
Payments received from contract owners	-	-	406,367	373,840
Transfers between subaccounts (including fixed accounts), net	60	(30)	(1,931)	(16,970)
Payment for contract benefits and terminations	(765)	(289)	(272,988)	(403,217)
Contract charges and fees	(379)	(439)	(380,710)	(380,206)
Net increase (decrease) in net assets from contract transactions	(1,084)	(758)	(249,262)	(426,553)
Total increase (decrease) in net assets	(1,529)	(251)	(1,219,679)	1,031,304
<b>Net assets</b>				
Beginning of period	9,472	9,723	6,659,570	5,628,266
End of period	\$ 7,943	\$ 9,472	\$ 5,439,891	\$ 6,659,570

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Aggressive Allocation Fund, Class I, Subaccount		Ultra Series Core Bond Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 10,484	\$ 9,104	\$ 127,525	\$ 124,132
Net realized gain (loss) on investments	150,905	83,175	(44,105)	(19,669)
Net change in unrealized appreciation (depreciation) on investments	(240,376)	88,724	(178,532)	31,325
Net increase (decrease) in net assets resulting from operations	(78,987)	181,003	(95,112)	135,788
<b>Contract transactions</b>				
Payments received from contract owners	73,525	74,140	322,691	332,498
Transfers between subaccounts (including fixed accounts), net	(13,073)	5,227	(20,207)	76,501
Payment for contract benefits and terminations	(37,465)	(126,819)	(354,941)	(386,006)
Contract charges and fees	(45,214)	(48,198)	(357,583)	(372,687)
Net increase (decrease) in net assets from contract transactions	(22,227)	(95,650)	(410,040)	(349,694)
Total increase (decrease) in net assets	(101,214)	85,353	(505,152)	(213,906)
<b>Net assets</b>				
Beginning of period	1,147,838	1,062,485	6,079,422	6,293,328
End of period	\$ 1,046,624	\$ 1,147,838	\$ 5,574,270	\$ 6,079,422

	Ultra Series Conservative Allocation Fund, Class I, Subaccount		Ultra Series Diversified Income Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 2,288	\$ 1,298	\$ 779,411	\$ 718,691
Net realized gain (loss) on investments	6,897	5,681	4,796,153	2,709,910
Net change in unrealized appreciation (depreciation) on investments	(14,213)	17,003	(6,437,428)	2,840,884
Net increase (decrease) in net assets resulting from operations	(5,028)	23,982	(861,864)	6,269,485
<b>Contract transactions</b>				
Payments received from contract owners	8,382	11,115	2,635,035	2,734,033
Transfers between subaccounts (including fixed accounts), net	(5,088)	(79,700)	113,329	(162,499)
Payment for contract benefits and terminations	(21,408)	(62,579)	(3,706,332)	(2,392,617)
Contract charges and fees	(10,876)	(18,836)	(3,228,232)	(3,296,794)
Net increase (decrease) in net assets from contract transactions	(28,990)	(150,000)	(4,186,200)	(3,117,877)
Total increase (decrease) in net assets	(34,018)	(126,018)	(5,048,064)	3,151,608
<b>Net assets</b>				
Beginning of period	179,132	305,150	55,806,472	52,654,864
End of period	\$ 145,114	\$ 179,132	\$ 50,758,408	\$ 55,806,472

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series High Income Fund, Class I, Subaccount		Ultra Series International Stock Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 40,104	\$ 39,991	\$ 18,448	\$ 9,939
Net realized gain (loss) on investments	(11,240)	(4,987)	11,889	(824)
Net change in unrealized appreciation (depreciation) on investments	(66,363)	19,786	(405,307)	481,821
Net increase (decrease) in net assets resulting from operations	(37,499)	54,790	(374,970)	490,936
<b>Contract transactions</b>				
Payments received from contract owners	36,000	37,464	150,497	154,557
Transfers between subaccounts (including fixed accounts), net	(7,236)	(14,545)	35,637	3,115
Payment for contract benefits and terminations	(91,398)	(64,634)	(199,003)	(119,150)
Contract charges and fees	(35,846)	(40,689)	(100,349)	(104,349)
Net increase (decrease) in net assets from contract transactions	(98,480)	(82,404)	(113,218)	(65,827)
Total increase (decrease) in net assets	(135,979)	(27,614)	(488,188)	425,109
<b>Net assets</b>				
Beginning of period	1,002,526	1,030,140	2,721,579	2,296,470
End of period	\$ 866,547	\$ 1,002,526	\$ 2,233,391	\$ 2,721,579

	Ultra Series Large Cap Growth Fund, Class I, Subaccount		Ultra Series Large Cap Value Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (86,506)	\$ (47,287)	\$ 485,779	\$ 1,096,498
Net realized gain (loss) on investments	13,614,776	5,647,511	6,933,712	4,503,956
Net change in unrealized appreciation (depreciation) on investments	(13,954,196)	1,902,101	(17,254,577)	4,908,074
Net increase (decrease) in net assets resulting from operations	(425,926)	7,502,325	(9,835,086)	10,508,528
<b>Contract transactions</b>				
Payments received from contract owners	1,813,838	1,858,321	3,585,322	3,623,071
Transfers between subaccounts (including fixed accounts), net	(236,152)	(192,946)	42,535	(282,542)
Payment for contract benefits and terminations	(2,086,261)	(1,758,483)	(4,191,767)	(4,012,932)
Contract charges and fees	(1,903,217)	(1,898,979)	(3,864,512)	(3,900,221)
Net increase (decrease) in net assets from contract transactions	(2,411,792)	(1,992,087)	(4,428,422)	(4,572,624)
Total increase (decrease) in net assets	(2,837,718)	5,510,238	(14,263,508)	5,935,904
<b>Net assets</b>				
Beginning of period	41,731,370	36,221,132	77,973,086	72,037,182
End of period	\$ 38,893,652	\$ 41,731,370	\$ 63,709,578	\$ 77,973,086

See accompanying notes to financial statements

**CMFG Variable Life Insurance Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Mid Cap Fund, Class I, Subaccount		Ultra Series Moderate Allocation Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (190,775)	\$ (181,355)	\$ 4,186	\$ 23,919
Net realized gain (loss) on investments	3,850,126	2,323,916	210,189	128,158
Net change in unrealized appreciation (depreciation) on investments	(4,089,077)	640,741	(325,535)	113,440
Net increase (decrease) in net assets resulting from operations	(429,726)	2,783,302	(111,160)	265,517
<b>Contract transactions</b>				
Payments received from contract owners	979,588	983,449	110,273	111,784
Transfers between subaccounts (including fixed accounts), net	(208,097)	(133,986)	(3,018)	64,281
Payment for contract benefits and terminations	(1,275,547)	(1,018,142)	(86,253)	(111,732)
Contract charges and fees	(946,184)	(924,759)	(91,284)	(94,048)
Net increase (decrease) in net assets from contract transactions	(1,450,240)	(1,093,438)	(70,282)	(29,715)
Total increase (decrease) in net assets	(1,879,966)	1,689,864	(181,442)	235,802
<b>Net assets</b>				
Beginning of period	21,147,288	19,457,424	2,185,875	1,950,073
End of period	\$ 19,267,322	\$ 21,147,288	\$ 2,004,433	\$ 2,185,875

	Vanguard VIF Money Market Portfolio, Subaccount	
	2018	2017
<b>Increase (decrease) in net assets from operations</b>		
Net investment income (loss)	\$ 18,908	\$ 2,037
Net realized gain (loss) on investments	-	-
Net change in unrealized appreciation (depreciation) on investments	-	-
Net increase (decrease) in net assets resulting from operations	18,908	2,037
<b>Contract transactions</b>		
Payments received from contract owners	230,120	228,639
Transfers between subaccounts (including fixed accounts), net	(137,273)	267,268
Payment for contract benefits and terminations	(179,018)	(110,031)
Contract charges and fees	(212,052)	(229,932)
Net increase (decrease) in net assets from contract transactions	(298,223)	155,944
Total increase (decrease) in net assets	(279,315)	157,981
<b>Net assets</b>		
Beginning of period	2,163,990	2,006,009
End of period	\$ 1,884,675	\$ 2,163,990

See accompanying notes to financial statements

## **CMFG Variable Life Insurance Account**

### **Notes to Financial Statements**

#### **(1) Organization**

The CMFG Variable Life Insurance Account (“the Account”) was established as a separate account of CMFG Life Insurance Company (“the Company”). The Account is registered with the Securities and Exchange Commission (“SEC”) as a unit investment trust under the Investment Company Act of 1940 (“1940 Act”) as amended.

The Account was established to receive and invest net premiums paid by the contract owners to the Company under two flexible premium variable life insurance contract types issued by the Company: MEMBERS® Variable Universal Life and UltraVers ALL-Life<sup>SM</sup> (type 1) and MEMBERS® Variable Universal Life II (type 2) (“contracts”).

The Account is divided into a number of subaccounts, each of which is treated as an individual accounting entity for financial reporting purposes. Each subaccount invests solely in a corresponding portfolio of one of the following funds, each an open-end management investment company registered with the SEC.

#### **Franklin Templeton Variable Insurance Products Trust**

Templeton Developing Markets VIP Fund <sup>(1)</sup>

#### **MFS® Variable Insurance Trust II**

MFS® Strategic Income Portfolio

#### **Oppenheimer Variable Account Funds**

Oppenheimer Global Strategic Income Fund/VA <sup>(1)</sup>

#### **T. Rowe Price International Series, Inc.**

T. Rowe Price International Stock Portfolio

#### **Ultra Series Fund**

Aggressive Allocation Fund <sup>(1)</sup>

Core Bond Fund

Conservative Allocation Fund <sup>(1)</sup>

Diversified Income Fund

High Income Fund <sup>(1)</sup>

International Stock Fund <sup>(1)</sup>

Large Cap Growth Fund

Large Cap Value Fund

Mid Cap Fund

Moderate Allocation Fund <sup>(1)</sup>

#### **Vanguard Variable Insurance Fund**

Vanguard VIF Money Market Portfolio

<sup>(1)</sup> This subaccount is only available in the MEMBERS® Variable Universal Life II (type 2) product.

The accompanying financial statements include only the contract owner assets, deposits, investment activity, and the contract transactions applicable to the variable portions of the contracts and exclude assets and activity for deposits for fixed dollar benefits, which are included in the general account of the Company. The net investment income and the realized and unrealized gains and losses from the assets for each subaccount are credited to or charged against that subaccount without regard to income, gains or losses from any other subaccount.

#### **(2) Significant Accounting Policies**

##### *Basis of Presentation*

The Account is an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 946, *Financial Services-Investment Companies*.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## **CMFG Variable Life Insurance Account**

### **Notes to Financial Statements**

#### **(2) Significant Accounting Policies (continued)**

##### *Investment Valuation*

Investments are made in shares of a fund and are recorded at fair value, determined by the net asset value per share of the respective fund. Investment transactions in each fund are recorded on the trade date. Realized gains and losses on redemptions of the shares of the fund are determined using the average cost basis. Income from dividends and gains from realized gain distributions from each fund are recorded on the ex-dividend date and are reinvested in that fund. The difference between cost and fair value of investments owned on the day of measurement is recorded as unrealized appreciation or depreciation of investments.

##### *Federal Income Taxes*

The operations of the Account are included in the consolidated federal income tax return of CUNA Mutual Holding Company ("CMHC"), the Company's ultimate parent, and its subsidiaries. The Company is taxed as a life insurance company under the provisions of the Internal Revenue Code ("IRC"). The Account's activities are included in the Company's taxable income. Under current provisions of the IRC, the Company does not expect to incur federal income taxes on recorded earnings or the realized capital gains attributed to the Account to the extent these earnings are credited to the policies. Accordingly, no provision for income tax is currently recorded. If such taxes are incurred by the Company in the future, a tax provision may be recorded.

#### **(3) Fees and Charges**

##### *Contract Charges*

In addition to charges for premium taxes, which reduce premiums prior to the allocation of net premiums to the subaccounts of the Account, the following charges may be deducted by the Company by redeeming an appropriate number of units for each contract and are included in contract charges and fees in the accompanying Statements of Changes in Net Assets of the applicable subaccount:

**Administrative Fee:** The Company has primary responsibility for the administration of the Account and the contracts issued. As reimbursement for these expenses, the Company may assess each contract a monthly administrative fee which is processed through redemption of units. This fee on an annual basis is \$0.45 per \$1,000 of the amount specified in the contract for the first ten contract years. This fee is not assessed after ten contract years.

**Surrender Charges:** For the type 1 product, the sales and administrative expenses are incurred when a contract is issued and are deferred (deferred charges) until the contract is surrendered. Such charges are not collected at all if the contract is held for nine years, or if the insured dies during the first ten years.

For the type 2 product, in the event a contract owner surrenders a contract prior to nine years, the contract owner is assessed and the Company records a contractual surrender charge to compensate the Company for certain sales and administrative expenses. There are no surrender charges assessed after nine years.

**Contract Fee:** The Company incurs first-year expenses upon issue of a contract, and assesses for each contract a monthly contract fee in the amount of \$6 (\$3 for issue ages 0-19 for the type 1 product only) to recover these expenses.

**Cost of Insurance and Additional Benefits Provided:** The Company is responsible for providing the insurance benefits stated in the contract. The cost of insurance is determined each month based upon the applicable cost of insurance rates and the net amount at risk. The cost of insurance can vary from month to month since the determination of both the insurance rate and the net amount at risk depends upon a number of variables such as the death benefit option selected by the contract owner, the benefit amount specified in the contract, and the cash value, all as described in the Account's prospectus. Several riders are available on the contracts that provide additional benefits, including children's insurance, guaranteed insurability, accidental death benefit, other insured term rider, and disability waiver of deductions or premium which can also impact the cost of insurance.

## **CMFG Variable Life Insurance Account**

### **Notes to Financial Statements**

#### **(3) Fees and Charges (continued)**

##### *Account Charges*

**Mortality and Expense Risk Charge:** The Company deducts a daily mortality and expense risk charge from the assets of the Subaccount to compensate it for assuming certain mortality and expense risks at an annual rate of 0.90%. These charges are included in mortality and expense charges in the accompanying Statement of Operations of the applicable subaccount.

#### **(4) Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of assets and liabilities into three broad levels. The Account has categorized its financial instruments, based on the degree of subjectivity inherent in the valuation technique, as follows:

- Level 1: Inputs are directly observable and represent quoted prices for identical assets or liabilities in active markets the Account has the ability to access at the measurement date.
- Level 2: All significant inputs are observable, either directly or indirectly, other than quoted prices included in Level 1, for the asset or liability. This includes: (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active and (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: One or more significant inputs are unobservable and reflect the Account's estimates of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The hierarchy requires the use of market observable information when available for assessing fair value.



**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(4) Fair Value (continued)**

The following table summarizes the Account's assets that are measured at fair value as of December 31, 2018. All of the Account's assets consist of Level 2 mutual funds that have daily quoted net asset values at which the Account could transact.

<b>December 31, 2018 Assets, at Fair Value</b>	<b>Total</b>
Templeton Developing Markets VIP Fund, Class 2, Subaccount	\$ 9,760
MFS® Strategic Income Portfolio, Initial Class, Subaccount	216,685
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	7,943
T. Rowe Price International Stock Portfolio, Subaccount	5,439,891
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	1,046,624
Ultra Series Core Bond Fund, Class I, Subaccount	5,574,270
Ultra Series Conservative Allocation Fund, Class I, Subaccount	145,114
Ultra Series Diversified Income Fund, Class I, Subaccount	50,758,408
Ultra Series High Income Fund, Class I, Subaccount	866,547
Ultra Series International Stock Fund, Class I, Subaccount	2,233,391
Ultra Series Large Cap Growth Fund, Class I, Subaccount	38,893,652
Ultra Series Large Cap Value Fund, Class I, Subaccount	63,709,578
Ultra Series Mid Cap Fund, Class I, Subaccount	19,267,322
Ultra Series Moderate Allocation Fund, Class I, Subaccount	2,004,433
Vanguard VIF Money Market Portfolio, Subaccount	1,884,675

The following table summarizes the Account's assets that are measured at fair value as of December 31, 2017. All of the Account's assets consist of Level 2 mutual funds that have daily quoted net asset values at which the Account could transact.

<b>December 31, 2017 Assets, at Fair Value</b>	<b>Total</b>
Templeton Developing Markets VIP Fund, Class 2, Subaccount	\$ 12,968
MFS® Strategic Income Portfolio, Initial Class, Subaccount	239,725
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	9,472
T. Rowe Price International Stock Portfolio, Subaccount	6,659,570
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	1,147,838
Ultra Series Core Bond Fund, Class I, Subaccount	6,079,422
Ultra Series Conservative Allocation Fund, Class I, Subaccount	179,132
Ultra Series Diversified Income Fund, Class I, Subaccount	55,806,472
Ultra Series High Income Fund, Class I, Subaccount	1,002,526
Ultra Series International Stock Fund, Class I, Subaccount	2,721,579
Ultra Series Large Cap Growth Fund, Class I, Subaccount	41,731,370
Ultra Series Large Cap Value Fund, Class I, Subaccount	77,973,086
Ultra Series Mid Cap Fund, Class I, Subaccount	21,147,288
Ultra Series Moderate Allocation Fund, Class I, Subaccount	2,185,875
Vanguard VIF Money Market Portfolio, Subaccount	2,163,990

There were no Level 3 investments in the Account, therefore, Level 3 roll-forward tables have not been provided. There were no transfers between levels during the years ended December 31, 2018 and 2017.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(5) Purchases and Sales of Investments**

The cost of purchases and proceeds from sales of investments in the various subaccounts for the year December 31, 2018 are as follows:

<b>Period Ended December 31, 2018</b>	<b>Purchases</b>	<b>Sales</b>
Templeton Developing Markets VIP Fund, Class 2, Subaccount	\$ 107	\$ 1,298
MFS® Strategic Income Portfolio, Initial Class, Subaccount	9,022	18,341
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	461	1,210
T. Rowe Price International Stock Portfolio, Subaccount	817,358	447,194
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	227,175	90,607
Ultra Series Core Bond Fund, Class I, Subaccount	315,438	597,952
Ultra Series Conservative Allocation Fund, Class I, Subaccount	18,046	37,416
Ultra Series Diversified Income Fund, Class I, Subaccount	6,042,302	5,127,198
Ultra Series High Income Fund, Class I, Subaccount	75,767	134,144
Ultra Series International Stock Fund, Class I, Subaccount	150,522	245,290
Ultra Series Large Cap Growth Fund, Class I, Subaccount	13,891,372	3,161,278
Ultra Series Large Cap Value Fund, Class I, Subaccount	8,508,526	5,774,253
Ultra Series Mid Cap Fund, Class I, Subaccount	3,765,595	1,871,820
Ultra Series Moderate Allocation Fund, Class I, Subaccount	297,318	159,646
Vanguard VIF Money Market Portfolio, Subaccount	391,769	671,084

The cost of purchases and proceeds from sales of investments in the various subaccounts for the year ended December 31, 2017 are as follows:

<b>Period Ended December 31, 2017</b>	<b>Purchases</b>	<b>Sales</b>
Templeton Developing Markets VIP Fund, Class 2, Subaccount	\$ 121	\$ 1,520
MFS® Strategic Income Portfolio, Initial Class, Subaccount	11,348	18,847
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	250	871
T. Rowe Price International Stock Portfolio, Subaccount	519,070	676,154
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	152,487	164,825
Ultra Series Core Bond Fund, Class I, Subaccount	347,788	573,350
Ultra Series Conservative Allocation Fund, Class I, Subaccount	14,380	158,288
Ultra Series Diversified Income Fund, Class I, Subaccount	4,088,036	4,191,203
Ultra Series High Income Fund, Class I, Subaccount	68,665	111,078
Ultra Series International Stock Fund, Class I, Subaccount	152,845	208,733
Ultra Series Large Cap Growth Fund, Class I, Subaccount	6,233,631	3,248,146
Ultra Series Large Cap Value Fund, Class I, Subaccount	6,841,814	6,040,766
Ultra Series Mid Cap Fund, Class I, Subaccount	2,577,077	1,851,687
Ultra Series Moderate Allocation Fund, Class I, Subaccount	307,616	199,345
Vanguard VIF Money Market Portfolio, Subaccount	651,822	493,841

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding**

The changes in units outstanding for years ended December 31, 2018 and 2017 were as follows:

	Templeton Developing Markets VIP Fund, Class 2, Subaccount		MFS® Strategic Income Portfolio, Initial Class, Subaccount	
	Type 1 ^	Type 2	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	-	589	9,614	10
Units issued	-	-	-	-
Units redeemed	-	(63)	(627)	(1)
<b>Units outstanding at December 31, 2017</b>	-	<b>526</b>	<b>8,987</b>	<b>9</b>
Units issued	-	-	-	-
Units redeemed	-	(51)	(621)	(1)
<b>Units outstanding at December 31, 2018</b>	-	<b>475</b>	<b>8,366</b>	<b>8</b>

	Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount		T. Rowe Price International Stock Portfolio, Subaccount	
	Type 1 ^	Type 2	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	-	2,114	270,131	6,704
Units issued	-	2	22,762	1
Units redeemed	-	(155)	(40,540)	(610)
<b>Units outstanding at December 31, 2017</b>	-	<b>1,961</b>	<b>252,353</b>	<b>6,095</b>
Units issued	-	-	19,707	-
Units redeemed	-	(238)	(29,614)	(523)
<b>Units outstanding at December 31, 2018</b>	-	<b>1,723</b>	<b>242,446</b>	<b>5,572</b>

	Ultra Series Aggressive Allocation Fund, Class I, Subaccount		Ultra Series Core Bond Fund, Class I, Subaccount	
	Type 1 ^	Type 2	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	-	87,705	85,622	121,354
Units issued	-	9,611	5,925	109,465
Units redeemed	-	(16,766)	(11,066)	(114,866)
<b>Units outstanding at December 31, 2017</b>	-	<b>80,550</b>	<b>80,481</b>	<b>115,953</b>
Units issued	-	9,142	4,930	114,242
Units redeemed	-	(10,702)	(11,446)	(119,548)
<b>Units outstanding at December 31, 2018</b>	-	<b>78,990</b>	<b>73,965</b>	<b>110,647</b>

^ This Subaccount is not available in this product type.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding (continued)**

	Ultra Series Conservative Allocation Fund, Class I, Subaccount		Ultra Series Diversified Income Fund, Class I, Subaccount	
	Type 1 ^	Type 2	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	-	23,609	472,265	382,407
Units issued	-	2,534	28,979	94,487
Units redeemed	-	(13,439)	(56,611)	(110,701)
<b>Units outstanding at December 31, 2017</b>	-	<b>12,704</b>	<b>444,633</b>	<b>366,193</b>
Units issued	-	2,427	25,907	91,832
Units redeemed	-	(4,477)	(60,244)	(114,334)
<b>Units outstanding at December 31, 2018</b>	-	<b>10,654</b>	<b>410,296</b>	<b>343,691</b>

	Ultra Series High Income Fund, Class I, Subaccount		Ultra Series International Stock Fund, Class I, Subaccount	
	Type 1 ^	Type 2	Type 1 ^	Type 2
<b>Units outstanding at December 31, 2016</b>	-	<b>48,681</b>	-	<b>102,212</b>
Units issued	-	41,533	-	108,562
Units redeemed	-	(45,278)	-	(111,082)
<b>Units outstanding at December 31, 2017</b>	-	<b>44,936</b>	-	<b>99,692</b>
Units issued	-	42,155	-	106,829
Units redeemed	-	(46,598)	-	(110,913)
<b>Units outstanding at December 31, 2018</b>	-	<b>40,493</b>	-	<b>95,608</b>

	Ultra Series Large Cap Growth Fund, Class I, Subaccount		Ultra Series Large Cap Value Fund, Class I, Subaccount	
	Type 1	Type 2	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	542,195	447,453	450,863	491,629
Units issued	37,945	154,985	27,856	210,141
Units redeemed	(64,787)	(177,340)	(55,530)	(235,832)
<b>Units outstanding at December 31, 2017</b>	<b>515,353</b>	<b>425,098</b>	<b>423,189</b>	<b>465,938</b>
Units issued	27,702	137,276	23,969	207,734
Units redeemed	(54,264)	(169,610)	(47,432)	(238,377)
<b>Units outstanding at December 31, 2018</b>	<b>488,791</b>	<b>392,764</b>	<b>399,726</b>	<b>435,295</b>

^ This Subaccount is not available in this product type.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding (continued)**

	Ultra Series Mid Cap Fund, Class I, Subaccount		Ultra Series Moderate Allocation Fund, Class I, Subaccount	
	Type 1	Type 2	Type 1 ^	Type 2
<b>Units outstanding at December 31, 2016</b>	321,720	253,826	-	153,345
Units issued	22,051	117,901	-	27,796
Units redeemed	(36,736)	(133,055)	-	(29,869)
<b>Units outstanding at December 31, 2017</b>	<b>307,035</b>	<b>238,672</b>	-	<b>151,272</b>
Units issued	16,069	107,490	-	24,883
Units redeemed	(34,597)	(124,890)	-	(29,739)
<b>Units outstanding at December 31, 2018</b>	<b>288,507</b>	<b>221,272</b>	-	<b>146,416</b>

	Vanguard VIF Money Market Portfolio, Subaccount	
	Type 1	Type 2
<b>Units outstanding at December 31, 2016</b>	96,187	104,412
Units issued	19,004	86,933
Units redeemed	(23,793)	(66,344)
<b>Units outstanding at December 31, 2017</b>	<b>91,398</b>	<b>125,001</b>
Units issued	35,283	38,966
Units redeemed	(23,110)	(80,936)
<b>Units outstanding at December 31, 2018</b>	<b>103,571</b>	<b>83,031</b>

^ This Subaccount is not available in this product type.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(7) Financial Highlights**

The table below provides financial highlights for each subaccount for the year ended December 31, 2018 and for the four preceeding years ended December 31. In certain instances, fewer years are presented because the subaccount was not available for the entire five-year period.

	<b>Templeton Developing Markets VIP Fund, Class 2, Subaccount</b>									
	<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>		<b>2014</b>	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 24.64	-	\$17.71	-	\$15.22	-	\$19.10	-	\$21.04
Unit value - End of period	-	\$ 20.56	-	\$24.64	-	\$17.71	-	\$15.22	-	\$19.10
Net assets at end of period (000's)	-	\$ 10	-	\$13	-	\$10	-	\$11	-	\$17
Units outstanding at end of period (000's)	-	0	-	1	-	1	-	1	-	1
Total return (1)	-	-16.56%	-	39.13%	-	16.36%	-	-20.31%	-	-9.22%
Investment income ratio (2)	-	0.81%	-	0.98%	-	0.86%	-	2.07%	-	1.45%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	<b>MFS® Strategic Income Portfolio, Initial Class, Subaccount</b>									
	<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>		<b>2014</b>	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 26.65	\$ 23.22	\$25.32	\$21.20	\$ 23.60	\$ 19.84	\$ 24.27	\$ 20.45	\$ 23.72	\$ 19.98
Unit value - End of period	\$ 25.88	\$ 22.75	\$26.65	\$23.22	\$ 25.32	\$ 21.20	\$ 23.60	\$ 19.84	\$ 24.27	\$ 20.45
Net assets at end of period (000's)	\$ 217	\$ -	\$ 240	\$ -	\$ 243	\$ -	\$ 243	\$ -	\$ 269	\$ -
Units outstanding at end of period (000's)	8	-	9	-	10	-	9	-	11	-
Total return (1)	-2.89%	-2.03%	5.25%	9.54%	7.29%	6.85%	-2.76%	-2.98%	2.32%	2.35%
Investment income ratio (2)	3.87%	3.87%	4.62%	4.62%	3.10%	3.10%	5.77%	5.77%	3.20%	3.20%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

	<b>Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount</b>									
	<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>		<b>2014</b>	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 4.83	-	\$ 4.60	-	\$ 4.35	-	\$ 4.48	-	\$ 4.39
Unit value - End of period	-	\$ 4.61	-	\$ 4.83	-	\$ 4.60	-	\$ 4.35	-	\$ 4.48
Net assets at end of period (000's)	-	\$ 8	-	\$ 9	\$ -	\$ 10	\$ -	\$ 11	-	\$ 13
Units outstanding at end of period (000's)	-	2	-	2	-	2	-	2	-	3
Total return (1)	-	-4.55%	-	5.00%	-	5.75%	-	-2.90%	-	2.05%
Investment income ratio (2)	-	4.77%	-	2.29%	-	4.94%	-	5.73%	-	4.25%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	<b>T. Rowe Price International Stock Portfolio, Subaccount</b>									
	<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>		<b>2014</b>	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 26.01	\$ 15.73	\$ 20.53	\$ 12.42	\$ 20.28	\$ 12.27	\$ 20.63	\$ 12.48	\$ 21.05	\$ 12.75
Unit value - End of period	\$ 22.13	\$ 13.38	\$ 26.01	\$ 15.73	\$ 20.53	\$ 12.42	\$ 20.28	\$ 12.27	\$ 20.63	\$ 12.48
Net assets at end of period (000's)	\$ 5,365	\$ 75	\$ 6,564	\$ 96	\$ 5,545	\$ 83	\$ 5,820	\$ 128	\$ 6,421	\$ 153
Units outstanding at end of period (000's)	242	6	252	6	270	7	287	10	311	12
Total return (1)	-14.92%	-14.94%	26.69%	26.65%	1.23%	1.22%	-1.70%	-1.68%	-2.00%	-2.12%
Investment income ratio (2)	1.27%	1.27%	1.10%	1.10%	1.05%	1.05%	0.91%	0.91%	1.04%	1.04%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

^ This Subaccount is not available in this product type.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

	Ultra Series Aggressive Allocation Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 14.25	-	\$ 12.11	-	\$ 11.23	-	\$ 11.47	-	\$ 10.78
Unit value - End of period	-	\$ 13.25	-	\$ 14.25	-	\$ 12.11	-	\$ 11.23	-	\$ 11.47
Net assets at end of period (000's)	-	\$ 1,047	-	\$ 1,148	-	\$ 1,062	-	\$ 969	-	\$ 1,088
Units outstanding at end of period (000's)	-	79	-	81	-	88	-	86	-	95
Total return (1)	-	-7.02%	-	17.67%	-	7.84%	-	-2.09%	-	6.40%
Investment income ratio (2)	-	1.81%	-	1.70%	-	1.89%	-	1.46%	-	1.95%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	Ultra Series Core Bond Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 49.72	\$ 17.92	\$ 48.65	\$ 17.54	\$ 47.80	\$ 17.24	\$ 48.33	\$ 17.43	\$ 46.41	\$ 16.74
Unit value - End of period	\$ 48.96	\$ 17.65	\$ 49.72	\$ 17.92	\$ 48.65	\$ 17.54	\$ 47.80	\$ 17.24	\$ 48.33	\$ 17.43
Net assets at end of period (000's)	\$ 3,621	\$ 1,953	\$ 4,002	\$ 2,078	\$ 4,165	\$ 2,128	\$ 4,313	\$ 2,267	\$ 4,843	\$ 2,536
Units outstanding at end of period (000's)	74	111	80	116	86	121	90	132	100	146
Total return (1)	-1.53%	-1.51%	2.20%	2.17%	1.78%	1.74%	-1.10%	-1.09%	4.14%	4.12%
Investment income ratio (2)	3.05%	3.05%	2.89%	2.89%	2.92%	2.92%	3.02%	3.02%	3.10%	3.10%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

	Ultra Series Conservative Allocation Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 14.10	-	\$ 12.92	-	\$ 12.37	-	\$ 12.56	-	\$ 11.96
Unit value - End of period	-	\$ 13.62	-	\$ 14.10	-	\$ 12.92	-	\$ 12.37	-	\$ 12.56
Net assets at end of period (000's)	-	\$ 145	-	\$ 179	-	\$ 305	-	\$ 421	-	\$ 715
Units outstanding at end of period (000's)	-	11	-	13	-	24	-	34	-	57
Total return (1)	-	-3.40%	-	9.13%	-	4.45%	-	-1.51%	-	5.02%
Investment income ratio (2)	-	2.32%	-	1.37%	-	1.51%	-	1.29%	-	2.21%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	Ultra Series Diversified Income Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 107.45	\$ 21.93	\$ 95.68	\$ 19.53	\$ 88.58	\$ 18.08	\$ 89.29	\$ 18.24	\$ 84.13	\$ 17.21
Unit value - End of period	\$ 105.66	\$ 21.55	\$ 107.45	\$ 21.93	\$ 95.68	\$ 19.53	\$ 88.58	\$ 18.08	\$ 89.29	\$ 18.24
Net assets at end of period (000's)	\$ 43,352	\$ 7,407	\$ 47,776	\$ 8,031	\$ 45,186	\$ 7,469	\$ 45,202	\$ 7,358	\$ 49,090	\$ 8,034
Units outstanding at end of period (000's)	410	344	445	366	472	382	510	407	550	440
Total return (1)	-1.67%	-1.73%	12.30%	12.29%	8.02%	8.02%	-0.80%	-0.88%	6.13%	5.98%
Investment income ratio (2)	2.34%	2.34%	2.23%	2.23%	2.41%	2.41%	2.48%	2.48%	2.36%	2.36%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

^ This Subaccount is not available in this product type.

**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

	Ultra Series High Income Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 22.31	-	\$ 21.16	-	\$ 19.02	-	\$ 19.68	-	\$ 19.53
Unit value - End of period	-	\$ 21.40	-	\$ 22.31	-	\$ 21.16	-	\$ 19.02	-	\$ 19.68
Net assets at end of period (000's)	-	\$ 867	-	\$ 1,003	-	\$ 1,030	-	\$ 996	-	\$ 1,100
Units outstanding at end of period (000's)	-	40	-	45	-	49	-	52	-	56
Total return (1)	-	-4.08%	-	5.43%	-	11.25%	-	-3.35%	-	0.77%
Investment income ratio (2)	-	5.03%	-	4.73%	-	5.15%	-	5.57%	-	5.67%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	Ultra Series International Stock Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	-	\$ 27.30	-	\$ 22.47	-	\$ 23.35	-	\$ 24.39	-	\$ 26.39
Unit value - End of period	-	\$ 23.36	-	\$ 27.30	-	\$ 22.47	-	\$ 23.35	-	\$ 24.39
Net assets at end of period (000's)	-	\$ 2,233	-	\$ 2,722	-	\$ 2,296	-	\$ 2,471	-	\$ 2,675
Units outstanding at end of period (000's)	-	96	-	100	-	102	-	106	-	110
Total return (1)	-	-14.43%	-	21.50%	-	-3.77%	-	-4.26%	-	-7.58%
Investment income ratio (2)	-	1.55%	-	1.29%	-	1.79%	-	1.96%	-	3.57%
Expense ratio (3)	-	0.90%	-	0.90%	-	0.90%	-	0.90%	-	0.90%

	Ultra Series Large Cap Growth Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 63.72	\$ 20.92	\$ 52.56	\$ 17.26	\$ 50.15	\$ 16.46	\$ 49.00	\$ 16.09	\$ 44.09	\$ 14.47
Unit value - End of period	\$ 62.97	\$ 20.66	\$ 63.72	\$ 20.92	\$ 52.56	\$ 17.26	\$ 50.15	\$ 16.46	\$ 49.00	\$ 16.09
Net assets at end of period (000's)	\$ 30,779	\$ 8,115	\$ 32,838	\$ 8,893	\$ 28,500	\$ 7,721	\$ 29,322	\$ 7,881	\$ 30,054	\$ 8,260
Units outstanding at end of period (000's)	489	393	515	425	542	447	585	479	613	513
Total return (1)	-1.18%	-1.24%	21.23%	21.21%	4.81%	4.86%	2.35%	2.30%	11.14%	11.20%
Investment income ratio (2)	0.70%	0.70%	0.78%	0.78%	0.84%	0.84%	1.13%	1.13%	0.67%	0.67%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

	Ultra Series Large Cap Value Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 162.33	\$ 19.91	\$ 140.93	\$ 17.29	\$ 125.82	\$ 15.44	\$ 130.44	\$ 16.01	\$ 117.07	\$ 14.38
Unit value - End of period	\$ 140.62	\$ 17.23	\$ 162.33	\$ 19.91	\$ 140.93	\$ 17.29	\$ 125.82	\$ 15.44	\$ 130.44	\$ 16.01
Net assets at end of period (000's)	\$ 56,209	\$ 7,500	\$ 68,696	\$ 9,277	\$ 63,538	\$ 8,499	\$ 60,169	\$ 8,143	\$ 66,821	\$ 9,164
Units outstanding at end of period (000's)	400	435	423	466	451	492	478	527	512	572
Total return (1)	-13.37%	-13.46%	15.18%	15.15%	12.01%	11.98%	-3.54%	-3.56%	11.42%	11.34%
Investment income ratio (2)	1.50%	1.50%	2.39%	2.39%	1.53%	1.53%	1.22%	1.22%	1.32%	1.32%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

^ This Subaccount is not available in this product type.



**CMFG Variable Life Insurance Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

	Ultra Series Mid Cap Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 35.38	\$ 43.09	\$ 30.85	\$ 37.56	\$ 27.59	\$ 33.58	\$ 27.54	\$ 33.55	\$ 25.29	\$ 30.83
Unit value - End of period	\$ 34.54	\$ 42.04	\$ 35.38	\$ 43.09	\$ 30.85	\$ 37.56	\$ 27.59	\$ 33.58	\$ 27.54	\$ 33.55
Net assets at end of period (000's)	\$ 9,965	\$ 9,302	\$ 10,863	\$ 10,284	\$ 9,923	\$ 9,534	\$ 9,407	\$ 9,207	\$ 9,964	\$ 9,954
Units outstanding at end of period (000's)	289	221	307	239	322	254	341	274	362	297
Total return (1)	-2.37%	-2.44%	14.68%	14.72%	11.82%	11.85%	0.18%	0.09%	8.90%	8.82%
Investment income ratio (2)	0.00%	0.00%	0.00%	0.00%	0.02%	0.02%	0.07%	0.07%	0.04%	0.04%
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%

	Ultra Series Moderate Allocation Fund, Class I, Subaccount									
	2018		2017		2016		2015		2014	
	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2	Type 1 ^	Type 2
Unit value - Beginning of period	- \$ 14.45	- \$ 12.72	- \$ 11.95	- \$ 12.18	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49
Unit value - End of period	- \$ 13.69	- \$ 14.45	- \$ 12.72	- \$ 11.95	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49	- \$ 11.49
Net assets at end of period (000's)	- \$ 2,004	- \$ 2,186	- \$ 1,950	- \$ 1,847	- \$ 2,037	- \$ 2,037	- \$ 2,037	- \$ 2,037	- \$ 2,037	- \$ 2,037
Units outstanding at end of period (000's)	- 146	- 151	- 153	- 155	- 167	- 167	- 167	- 167	- 167	- 167
Total return (1)	- -5.26%	- 13.60%	- 6.44%	- -1.89%	- 6.01%	- 6.01%	- 6.01%	- 6.01%	- 6.01%	- 6.01%
Investment income ratio (2)	- 1.09%	- 2.06%	- 1.96%	- 1.63%	- 1.82%	- 1.82%	- 1.82%	- 1.82%	- 1.82%	- 1.82%
Expense ratio (3)	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%	- 0.90%

	Vanguard VIF Money Market Portfolio, Subaccount									
	2018		2017		2016 (a)		2015		2014	
	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2	Type 1	Type 2
Unit value - Beginning of period	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	-	-	-	-
Unit value - End of period	\$ 10.10	\$ 10.10	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	-	-	-	-
Net assets at end of period (000's)	\$ 1,046	\$ 839	\$ 914	\$ 1,250	\$ 962	\$ 1,044	-	-	-	-
Units outstanding at end of period (000's)	104	83	91	125	96	104	-	-	-	-
Total return (1)	1.00%	1.00%	0.00%	0.00%	-	-	-	-	-	-
Investment income ratio (2)	1.87%	1.87%	1.00%	1.00%	0.49%	0.49%	-	-	-	-
Expense ratio (3)	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	-	-	-	-

^ This Subaccount is not available in this product type.

(1) The Total Return represents the total return for the periods indicated, including changes in the value of the underlying fund and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. The total return is calculated for each period shown and, accordingly, is not annualized for periods less than one year.

(2) The Investment Income Ratio represents dividends received by the subaccount, excluding capital gains distributions, divided by the daily average net assets for the period indicated. The recognition of investment income is determined by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.

(3) The Expense Ratio represents the annualized contract expenses of the respective contract of the subaccount, consisting of mortality and expense risk charges. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

(a) For the period of February 15, 2016 to December 31, 2016 with a beginning unit value of \$10.00. Total return is based on the beginning unit value. The Subaccount commenced operations effective February 12, 2016.

**(8) Subsequent Events**

The Account evaluated subsequent events through the date the financial statements were issued. During this period, there were no significant subsequent events that required adjustment to or disclosure in the accompanying financial statements.



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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
CMFG Life Insurance Company and  
Contract Owners of CMFG Variable Annuity Account:

### **Opinion on the Financial Statements and Financial Highlights**

We have audited the accompanying statements of assets and liabilities for each of the subaccounts of CMFG Variable Annuity Account (the "Account") listed in Appendix A, as of December 31, 2018, the related statements of operations, the statements of changes in net assets, the financial highlights for each of the periods presented in Appendix A and the related notes. In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of each of the subaccounts comprising the Account as of December 31, 2018, and the results of their operations, the changes in their net assets, and the financial highlights for each of the periods presented in Appendix A, in conformity with accounting principles generally accepted in the United States of America.

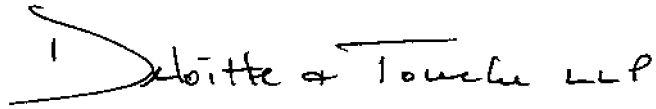
### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Account is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included

confirmation of securities owned as of December 31, 2018, by correspondence with the Account's fund managers. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized, with a large, sweeping initial "D" and a horizontal line extending from the "t" in "Touche".

February 25, 2019

We have served as the auditor of CMFG Variable Annuity Account since 2004.

**CMFG Variable Annuity Account**

**Appendix A**

Statement of Assets and Liabilities As of		Statement of Operations For The	Statement Of Changes in Net Assets For the	Financial Highlights For The
Subaccount				
Blackrock Global Allocation V.I. Fund, Class III, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Franklin Income VIP Fund, Class 4, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Templeton Developing Markets VIP Fund, Class 2, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Invesco V.I. Growth And Income Fund, Series II Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Invesco V.I. Mid Cap Growth Fund, Series II Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
MFS® Strategic Income Portfolio, Initial Class, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Oppenheimer Global Strategic Income Fund/V.A. Non-Service Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Oppenheimer International Growth Fund/V.A. Service Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Oppenheimer Main Street Small Cap Fund®/V.A. Service Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Oppenheimer Main Street Fund®/V.A. Service Shares, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
PIMCO Commodity Real Return® Strategy Portfolio, Advisor Class, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
PIMCO Global Bond Portfolio (Unhedged), Advisor Class, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
PIMCO Total Return Portfolio, Advisor Class, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
T. Rowe Price International Stock Portfolio, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Aggressive Allocation Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018

CMFG Variable Annuity Account

Subaccount	Statement of Assets and Liabilities As of	Statement of Operations For The	Statement Of Changes in Net Assets For the	Financial Highlights For The
Ultra Series Core Bond Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Core Bond Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Conservative Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Conservative Allocation Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Diversified Income Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Diversified Income Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Foundation Account, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Foundation Account, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series High Income Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series High Income Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series International Stock Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series International Stock Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Growth Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Growth Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Value Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Large Cap Value Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Mid Cap Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Mid Cap Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Moderate Allocation Fund, Class I, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018
Ultra Series Moderate Allocation Fund, Class II, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Five Years Ended December 31, 2018

CMFG Variable Annuity Account

Appendix A  
(Continued)

Subaccount	Statement of Assets and Liabilities As of	Statement of Operations For The	Statement Of Changes in Net Assets For the	Financial Highlights For The
Vanguard VIF Money Market Portfolio, Subaccount	December 31, 2018	Year Ended December 31, 2018	Two Years Ended December 31, 2018	Two Years Ended December 31, 2018 and Period from February 12, 2016* To December 31, 2016

\* Date represents commencement of operations

**CMFG Variable Annuity Account**  
**Statements of Assets and Liabilities**  
**As of December 31, 2018**

	<b>BlackRock Global Allocation V.I. Fund, Class III, Subaccount</b>	<b>Franklin Income VIP Fund, Class 4, Subaccount</b>	<b>Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount</b>	<b>Templeton Developing Markets VIP Fund, Class 2, Subaccount</b>
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 16,619,031	\$ 10,791,576	\$ 6,452,387	\$ 678,619
Total assets	16,619,031	10,791,576	6,452,387	678,619
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 16,619,031	\$ 10,791,576	\$ 6,452,387	\$ 678,619
<b>Net assets</b>				
Contracts in accumulation period	\$ 16,619,031	\$ 10,789,520	\$ 6,450,328	\$ 678,619
Contracts in annuitization period (note 2)	-	2,056	2,059	-
Total net assets	\$ 16,619,031	\$ 10,791,576	\$ 6,452,387	\$ 678,619
Number of shares outstanding	1,283,323	715,622	373,186	79,464
Net asset value per share	\$ 12.95	\$ 15.08	\$ 17.29	\$ 8.54
Cost of mutual fund shares	\$ 18,380,637	\$ 10,661,061	\$ 7,413,556	\$ 633,440

	<b>Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount</b>	<b>Invesco V.I. Government Securities Fund, Series II Shares, Subaccount</b>	<b>Invesco V.I. Growth and Income, Series II Shares, Subaccount</b>	<b>Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount</b>
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 5,592,501	\$ 13,680,584	\$ 27,967,076	\$ 6,497,411
Total assets	5,592,501	13,680,584	27,967,076	6,497,411
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 5,592,501	\$ 13,680,584	\$ 27,967,076	\$ 6,497,411
<b>Net assets</b>				
Contracts in accumulation period	\$ 5,590,745	\$ 13,680,584	\$ 27,964,655	\$ 6,497,411
Contracts in annuitization period (note 2)	1,756	-	2,421	-
Total net assets	\$ 5,592,501	\$ 13,680,584	\$ 27,967,076	\$ 6,497,411
Number of shares outstanding	372,089	1,230,268	1,599,947	1,391,309
Net asset value per share	\$ 15.03	\$ 11.12	\$ 17.48	\$ 4.67
Cost of mutual fund shares	\$ 4,959,736	\$ 14,666,899	\$ 29,804,935	\$ 5,686,369

*See accompanying notes to financial statements*

**CMFG Variable Annuity Account**  
**Statements of Assets and Liabilities (continued)**  
**As of December 31, 2018**

	<b>MFS® Strategic Income Portfolio, Initial Class, Subaccount</b>	<b>Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount</b>	<b>Oppenheimer International Growth Fund/VA, Service Shares, Subaccount</b>	<b>Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount</b>
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 601,084	\$ 355,711	\$ 13,164,756	\$ 7,168,955
Total assets	601,084	355,711	13,164,756	7,168,955
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 601,084	\$ 355,711	\$ 13,164,756	\$ 7,168,955
<b>Net assets</b>				
Contracts in accumulation period	\$ 598,276	\$ 354,325	\$ 13,164,756	\$ 7,164,991
Contracts in annuitization period (note 2)	2,808	1,386	-	3,964
Total net assets	\$ 601,084	\$ 355,711	\$ 13,164,756	\$ 7,168,955
Number of shares outstanding	64,912	76,333	6,209,791	357,911
Net asset value per share	\$ 9.26	\$ 4.66	\$ 2.12	\$ 20.03
Cost of mutual fund shares	\$ 647,335	\$ 414,846	\$ 11,858,095	\$ 6,881,372

	<b>Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount</b>	<b>PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount</b>	<b>PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount</b>	<b>PIMCO Total Return Portfolio, Advisor Class, Subaccount</b>
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 15,005,888	\$ 6,703,889	\$ 15,781,990	\$ 33,453,951
Total assets	15,005,888	6,703,889	15,781,990	33,453,951
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 15,005,888	\$ 6,703,889	\$ 15,781,990	\$ 33,453,951
<b>Net assets</b>				
Contracts in accumulation period	\$ 15,005,888	\$ 6,703,889	\$ 15,781,990	\$ 33,453,951
Contracts in annuitization period (note 2)	-	-	-	-
Total net assets	\$ 15,005,888	\$ 6,703,889	\$ 15,781,990	\$ 33,453,951
Number of shares outstanding	566,046	1,100,803	1,439,963	3,192,171
Net asset value per share	\$ 26.51	\$ 6.09	\$ 10.96	\$ 10.48
Cost of mutual fund shares	\$ 13,134,788	\$ 13,115,585	\$ 18,481,307	\$ 35,403,977

See accompanying notes to financial statements



**CMFG Variable Annuity Account**  
**Statements of Assets and Liabilities (continued)**  
**As of December 31, 2018**

	T. Rowe Price International Stock Portfolio, Subaccount	Ultra Series Aggressive Allocation Fund, Class I, Subaccount	Ultra Series Aggressive Allocation Fund, Class II, Subaccount	Ultra Series Core Bond Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 3,893,576	\$ 8,049,825	\$ 1,526,564	\$ 51,077,391
Total assets	3,893,576	8,049,825	1,526,564	51,077,391
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 3,893,576	\$ 8,049,825	\$ 1,526,564	\$ 51,077,391
<b>Net assets</b>				
Contracts in accumulation period	\$ 3,843,432	\$ 7,997,127	\$ 1,526,564	\$ 50,857,814
Contracts in annuitization period (note 2)	50,144	52,698	-	219,577
Total net assets	\$ 3,893,576	\$ 8,049,825	\$ 1,526,564	\$ 51,077,391
Number of shares outstanding	298,587	1,010,371	192,233	5,439,378
Net asset value per share	\$ 13.04	\$ 7.97	\$ 7.94	\$ 9.39
Cost of mutual fund shares	\$ 4,070,802	\$ 9,559,493	\$ 1,762,326	\$ 55,678,547

	Ultra Series Core Bond Fund, Class II, Subaccount	Ultra Series Conservative Allocation Fund, Class I, Subaccount	Ultra Series Conservative Allocation Fund, Class II, Subaccount	Ultra Series Diversified Income Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 13,826,649	\$ 46,020,657	\$ 22,526,738	\$ 97,863,268
Total assets	13,826,649	46,020,657	22,526,738	97,863,268
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 13,826,649	\$ 46,020,657	\$ 22,526,738	\$ 97,863,268
<b>Net assets</b>				
Contracts in accumulation period	\$ 13,826,649	\$ 45,882,262	\$ 22,526,738	\$ 96,544,104
Contracts in annuitization period (note 2)	-	138,395	-	1,319,164
Total net assets	\$ 13,826,649	\$ 46,020,657	\$ 22,526,738	\$ 97,863,268
Number of shares outstanding	1,477,917	4,996,651	2,443,141	5,669,420
Net asset value per share	\$ 9.36	\$ 9.21	\$ 9.22	\$ 17.26
Cost of mutual fund shares	\$ 15,076,626	\$ 49,997,012	\$ 24,230,045	\$ 103,497,041

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Assets and Liabilities (continued)**  
**As of December 31, 2018**

	Ultra Series Diversified Income Fund, Class II, Subaccount	Ultra Series Foundation Account, Class I, Subaccount	Ultra Series Foundation Account, Class II, Subaccount	Ultra Series High Income Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 32,925,031	\$ 280,968	\$ 15,886,121	\$ 16,539,320
Total assets	32,925,031	280,968	15,886,121	16,539,320
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 32,925,031	\$ 280,968	\$ 15,886,121	\$ 16,539,320
<b>Net assets</b>				
Contracts in accumulation period	\$ 32,925,031	\$ 280,968	\$ 15,886,121	\$ 16,421,209
Contracts in annuitization period (note 2)	-	-	-	118,111
Total net assets	\$ 32,925,031	\$ 280,968	\$ 15,886,121	\$ 16,539,320
Number of shares outstanding	1,923,202	29,921	1,698,052	2,089,908
Net asset value per share	\$ 17.12	\$ 9.39	\$ 9.36	\$ 7.91
Cost of mutual fund shares	\$ 34,708,163	\$ 307,818	\$ 17,618,992	\$ 19,305,800

	Ultra Series High Income Fund, Class II, Subaccount	Ultra Series International Stock Fund, Class I, Subaccount	Ultra Series International Stock Fund, Class II, Subaccount	Ultra Series Large Cap Growth Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 4,604,556	\$ 18,896,251	\$ 9,218,837	\$ 61,428,121
Total assets	4,604,556	18,896,251	9,218,837	61,428,121
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 4,604,556	\$ 18,896,251	\$ 9,218,837	\$ 61,428,121
<b>Net assets</b>				
Contracts in accumulation period	\$ 4,604,556	\$ 18,861,150	\$ 9,218,837	\$ 61,073,750
Contracts in annuitization period (note 2)	-	35,101	-	354,371
Total net assets	\$ 4,604,556	\$ 18,896,251	\$ 9,218,837	\$ 61,428,121
Number of shares outstanding	581,303	1,902,007	933,147	3,572,711
Net asset value per share	\$ 7.92	\$ 9.93	\$ 9.88	\$ 17.19
Cost of mutual fund shares	\$ 5,295,069	\$ 20,708,708	\$ 9,172,472	\$ 75,178,876

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Assets and Liabilities (continued)**  
**As of December 31, 2018**

	Ultra Series Large Cap Growth Fund, Class II, Subaccount	Ultra Series Large Cap Value Fund, Class I, Subaccount	Ultra Series Large Cap Value Fund, Class II, Subaccount	Ultra Series Mid Cap Fund, Class I, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 17,704,407	\$ 78,334,519	\$ 3,828,658	\$ 58,237,406
Total assets	17,704,407	78,334,519	3,828,658	58,237,406
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 17,704,407	\$ 78,334,519	\$ 3,828,658	\$ 58,237,406
<b>Net assets</b>				
Contracts in accumulation period	\$ 17,704,407	\$ 77,642,870	\$ 3,828,658	\$ 57,974,374
Contracts in annuitization period (note 2)	-	691,649	-	263,032
Total net assets	\$ 17,704,407	\$ 78,334,519	\$ 3,828,658	\$ 58,237,406
Number of shares outstanding	1,050,732	3,584,316	177,568	3,834,940
Net asset value per share	\$ 16.85	\$ 21.85	\$ 21.56	\$ 15.19
Cost of mutual fund shares	\$ 22,059,543	\$ 99,412,161	\$ 4,550,860	\$ 61,339,973

	Ultra Series Mid Cap Fund, Class II, Subaccount	Ultra Series Moderate Allocation Fund, Class I, Subaccount	Ultra Series Moderate Allocation Fund, Class II, Subaccount	Vanguard VIF Money Market Portfolio, Subaccount
<b>Assets</b>				
Investments in mutual funds at fair value	\$ 7,921,124	\$ 85,175,980	\$ 20,302,139	\$ 24,262,115
Total assets	7,921,124	85,175,980	20,302,139	24,262,115
<b>Liabilities</b>				
	-	-	-	-
Net assets	\$ 7,921,124	\$ 85,175,980	\$ 20,302,139	\$ 24,262,115
<b>Net assets</b>				
Contracts in accumulation period	\$ 7,921,124	\$ 84,754,278	\$ 20,302,139	\$ 24,192,153
Contracts in annuitization period (note 2)	-	421,702	-	69,962
Total net assets	\$ 7,921,124	\$ 85,175,980	\$ 20,302,139	\$ 24,262,115
Number of shares outstanding	536,218	9,260,473	2,209,444	24,262,115
Net asset value per share	\$ 14.77	\$ 9.20	\$ 9.19	\$ 1.00
Cost of mutual fund shares	\$ 8,181,080	\$ 94,400,261	\$ 21,488,413	\$ 24,262,115

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Operations**  
**For the Year Ended December 31, 2018**

	BlackRock Global Allocation V.I. Fund, Class III, Subaccount	Franklin Income VIP Fund, Class 4, Subaccount	Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	Templeton Developing Markets VIP Fund, Class 2, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 157,817	\$ 587,358	\$ 161,864	\$ 7,071
Mortality and expense charges (note 3)	(240,751)	(146,944)	(90,489)	(10,196)
Administrative charges	(33,863)	(18,740)	(11,782)	(1,224)
Net investment income (loss)	(116,797)	421,674	59,593	(4,349)
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	194,236	358,828	44,320	17,292
Realized gain distributions	806,680	-	92,387	-
Net realized gain (loss) on investments	1,000,916	358,828	136,707	17,292
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(2,529,722)	(1,413,190)	(1,107,388)	(158,057)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (1,645,603)	\$ (632,688)	\$ (911,088)	\$ (145,114)

	Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	Invesco V.I. Growth and Income, Series II Shares, Subaccount	Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 227,988	\$ 283,327	\$ 610,605	\$ -
Mortality and expense charges (note 3)	(74,735)	(172,665)	(416,450)	(96,627)
Administrative charges	(11,425)	(28,255)	(66,904)	(15,784)
Net investment income (loss)	141,828	82,407	127,251	(112,411)
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	304,967	(231,755)	1,578,422	1,257,056
Realized gain distributions	76,021	-	3,209,900	859,234
Net realized gain (loss) on investments	380,988	(231,755)	4,788,322	2,116,290
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(1,007,982)	(46,810)	(9,758,406)	(2,325,459)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (485,166)	\$ (196,158)	\$ (4,842,833)	\$ (321,580)

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Operations (continued)**  
**For the Year Ended December 31, 2018**

	<b>MFS® Strategic Income Portfolio, Initial Class, Subaccount</b>	<b>Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount</b>	<b>Oppenheimer International Growth Fund/VA, Service Shares, Subaccount</b>	<b>Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount</b>
<b>Investment income (loss)</b>				
Dividend income	\$ 24,994	\$ 19,402	\$ 99,254	\$ 5,476
Mortality and expense charges (note 3)	(7,929)	(4,904)	(196,283)	(109,492)
Administrative charges	(951)	(588)	(31,147)	(17,053)
Net investment income (loss)	16,114	13,910	(128,176)	(121,069)
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	(3,009)	(6,203)	1,619,200	910,363
Realized gain distributions	-	-	314,594	1,195,090
Net realized gain (loss) on investments	(3,009)	(6,203)	1,933,794	2,105,453
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(35,194)	(30,591)	(5,204,469)	(2,815,201)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (22,089)	\$ (22,884)	\$ (3,398,851)	\$ (830,817)

	<b>Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount</b>	<b>PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount</b>	<b>PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount</b>	<b>PIMCO Total Return Portfolio, Advisor Class, Subaccount</b>
<b>Investment income (loss)</b>				
Dividend income	\$ 164,847	\$ 165,712	\$ 1,082,372	\$ 878,765
Mortality and expense charges (note 3)	(210,990)	(96,804)	(205,517)	(418,943)
Administrative charges	(35,080)	(15,015)	(32,716)	(60,904)
Net investment income (loss)	(81,223)	53,893	844,139	398,918
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	1,200,797	(1,190,264)	(287,211)	(301,871)
Realized gain distributions	1,606,372	-	46,664	407,368
Net realized gain (loss) on investments	2,807,169	(1,190,264)	(240,547)	105,497
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(4,215,876)	(108,337)	(1,598,692)	(1,295,959)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (1,489,930)	\$ (1,244,708)	\$ (995,100)	\$ (791,544)

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Operations (continued)**  
**For the Year Ended December 31, 2018**

	T. Rowe Price International Stock Portfolio, Subaccount	Ultra Series Aggressive Allocation Fund, Class I, Subaccount	Ultra Series Aggressive Allocation Fund, Class II, Subaccount	Ultra Series Core Bond Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 60,309	\$ 159,642	\$ 26,007	\$ 1,632,642
Mortality and expense charges (note 3)	(59,782)	(103,241)	(24,090)	(642,696)
Administrative charges	(7,174)	(7,967)	(3,142)	(55,525)
Net investment income (loss)	(6,647)	48,434	(1,225)	934,421
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	149,185	42,896	44,000	(729,608)
Realized gain distributions	424,788	1,140,113	219,152	-
Net realized gain (loss) on investments	573,973	1,183,009	263,152	(729,608)
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(1,296,961)	(1,874,685)	(391,544)	(1,380,692)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (729,635)	\$ (643,242)	\$ (129,617)	\$ (1,175,879)
	Ultra Series Core Bond Fund, Class II, Subaccount	Ultra Series Conservative Allocation Fund, Class I, Subaccount	Ultra Series Conservative Allocation Fund, Class II, Subaccount	Ultra Series Diversified Income Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 414,116	\$ 1,165,196	\$ 489,808	\$ 2,445,820
Mortality and expense charges (note 3)	(170,291)	(599,971)	(298,303)	(1,274,214)
Administrative charges	(32,340)	(72,988)	(41,970)	(96,129)
Net investment income (loss)	211,485	492,237	149,535	1,075,477
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	(167,868)	128,294	145,614	972,096
Realized gain distributions	-	2,314,003	1,140,098	8,357,294
Net realized gain (loss) on investments	(167,868)	2,442,297	1,285,712	9,329,390
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(399,502)	(4,798,459)	(2,423,407)	(12,505,137)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (355,885)	\$ (1,863,925)	\$ (988,160)	\$ (2,100,270)

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Operations (continued)**  
**For the Year Ended December 31, 2018**

	Ultra Series Diversified Income Fund, Class II, Subaccount	Ultra Series Foundation Account, Class I, Subaccount	Ultra Series Foundation Account, Class II, Subaccount	Ultra Series High Income Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 762,645	\$ 8,896	\$ 474,413	\$ 932,799
Mortality and expense charges (note 3)	(431,513)	(3,258)	(199,576)	(211,883)
Administrative charges	(73,440)	(425)	(29,154)	(15,299)
Net investment income (loss)	257,692	5,213	245,683	705,617
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	579,815	(838)	(348,497)	(253,801)
Realized gain distributions	2,828,337	-	-	-
Net realized gain (loss) on investments	3,408,152	(838)	(348,497)	(253,801)
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(4,437,249)	(10,007)	(329,941)	(1,249,158)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (771,405)	\$ (5,632)	\$ (432,755)	\$ (797,342)

	Ultra Series High Income Fund, Class II, Subaccount	Ultra Series International Stock Fund, Class I, Subaccount	Ultra Series International Stock Fund, Class II, Subaccount	Ultra Series Large Cap Growth Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 247,689	\$ 351,816	\$ 154,826	\$ 459,665
Mortality and expense charges (note 3)	(59,434)	(262,286)	(133,275)	(825,830)
Administrative charges	(10,590)	(21,405)	(22,779)	(71,077)
Net investment income (loss)	177,665	68,125	(1,228)	(437,242)
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	(63,667)	166,974	368,237	1,443,700
Realized gain distributions	-	-	-	20,995,472
Net realized gain (loss) on investments	(63,667)	166,974	368,237	22,439,172
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(355,112)	(3,570,885)	(2,060,748)	(22,816,482)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (241,114)	\$ (3,335,786)	\$ (1,693,739)	\$ (814,552)

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Operations (continued)**  
**For the Year Ended December 31, 2018**

	Ultra Series Large Cap Growth Fund, Class II, Subaccount	Ultra Series Large Cap Value Fund, Class I, Subaccount	Ultra Series Large Cap Value Fund, Class II, Subaccount	Ultra Series Mid Cap Fund, Class I, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ 107,805	\$ 1,445,283	\$ 64,960	\$ -
Mortality and expense charges (note 3)	(244,179)	(1,178,009)	(58,535)	(785,117)
Administrative charges	(41,264)	(101,299)	(11,689)	(58,315)
Net investment income (loss)	(177,638)	165,975	(5,264)	(843,432)
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	730,992	191	87,723	1,722,284
Realized gain distributions	6,121,678	8,215,679	408,587	10,726,297
Net realized gain (loss) on investments	6,852,670	8,215,870	496,310	12,448,581
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(6,889,482)	(20,808,992)	(1,112,436)	(12,969,735)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (214,450)	\$ (12,427,147)	\$ (621,390)	\$ (1,364,586)

	Ultra Series Mid Cap Fund, Class II, Subaccount	Ultra Series Moderate Allocation Fund, Class I, Subaccount	Ultra Series Moderate Allocation Fund, Class II, Subaccount	Vanguard VIF Money Market Portfolio, Subaccount
<b>Investment income (loss)</b>				
Dividend income	\$ -	\$ 1,003,466	\$ 181,292	\$ 501,463
Mortality and expense charges (note 3)	(111,242)	(1,121,190)	(270,692)	(303,239)
Administrative charges	(19,134)	(138,196)	(41,746)	(39,956)
Net investment income (loss)	(130,376)	(255,920)	(131,146)	158,268
<b>Realized gain (loss) on sale of investments</b>				
Net realized gain (loss) on sale of fund shares	524,176	752,779	716,234	-
Realized gain distributions	1,492,761	8,674,763	2,076,000	-
Net realized gain (loss) on investments	2,016,937	9,427,542	2,792,234	-
<b>Net change in unrealized appreciation (depreciation) on investments</b>	(2,047,539)	(14,313,943)	(3,932,399)	-
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ (160,978)	\$ (5,142,321)	\$ (1,271,311)	\$ 158,268

See accompanying notes to financial statements



**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets**  
**For the Years Ended December 31,**

	BlackRock		Franklin Income VIP	
	Global Allocation V.I.		Fund, Class 4, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (116,797)	\$ (28,460)	\$ 421,674	\$ 425,345
Net realized gain (loss) on investments	1,000,916	349,908	358,828	395,977
Net change in unrealized appreciation (depreciation) on investments	(2,529,722)	2,794,159	(1,413,190)	445,169
Net increase (decrease) in net assets resulting from operations	(1,645,603)	3,115,607	(632,688)	1,266,491
<b>Contract transactions</b>				
Payments received from contract owners	32,930	128,092	33,979	113,185
Transfers between subaccounts (including fixed accounts), net	(342,433)	(196,865)	(392,044)	(368,367)
Payment for contract benefits and terminations	(6,555,259)	(4,081,069)	(3,035,049)	(3,203,055)
Contract charges and fees	(275,140)	(317,899)	(55,472)	(75,618)
Adjustments to net assets allocated to contracts in payout period	-	-	409	331
Net increase (decrease) in net assets from contract transactions	(7,139,902)	(4,467,741)	(3,448,177)	(3,533,524)
Total increase (decrease) in net assets	(8,785,505)	(1,352,134)	(4,080,865)	(2,267,033)
<b>Net assets</b>				
Beginning of period	25,404,536	26,756,670	14,872,441	17,139,474
End of period	\$ 16,619,031	\$ 25,404,536	\$ 10,791,576	\$ 14,872,441

	Franklin Mutual		Templeton	
	Global Discovery VIP		Developing Markets VIP	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 59,593	\$ 23,192	\$ (4,349)	\$ (3,412)
Net realized gain (loss) on investments	136,707	652,363	17,292	6,400
Net change in unrealized appreciation (depreciation) on investments	(1,107,388)	25,126	(158,057)	259,875
Net increase (decrease) in net assets resulting from operations	(911,088)	700,681	(145,114)	262,863
<b>Contract transactions</b>				
Payments received from contract owners	25,582	64,459	-	-
Transfers between subaccounts (including fixed accounts), net	82,931	(483,108)	(5,058)	(55)
Payment for contract benefits and terminations	(1,670,067)	(2,135,172)	(85,246)	(57,452)
Contract charges and fees	(49,831)	(61,452)	(323)	(361)
Adjustments to net assets allocated to contracts in payout period	435	358	-	-
Net increase (decrease) in net assets from contract transactions	(1,610,950)	(2,614,915)	(90,627)	(57,868)
Total increase (decrease) in net assets	(2,522,038)	(1,914,234)	(235,741)	204,995
<b>Net assets</b>				
Beginning of period	8,974,425	10,888,659	914,360	709,365
End of period	\$ 6,452,387	\$ 8,974,425	\$ 678,619	\$ 914,360

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Change in Net Assets (continued)**  
**For the Years Ended December 31,**

	Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount		Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 141,828	\$ 126,577	\$ 82,407	\$ 89,173
Net realized gain (loss) on investments	380,988	520,720	(231,755)	(130,849)
Net change in unrealized appreciation (depreciation) on investments	(1,007,982)	181,778	(46,810)	112,276
Net increase (decrease) in net assets resulting from operations	(485,166)	829,075	(196,158)	70,600
<b>Contract transactions</b>				
Payments received from contract owners	32,672	27,268	109,513	87,135
Transfers between subaccounts (including fixed accounts), net	(6,942)	33,429	693,855	1,162,256
Payment for contract benefits and terminations	(1,327,283)	(1,453,232)	(3,136,050)	(2,612,284)
Contract charges and fees	(50,523)	(59,580)	(164,684)	(185,977)
Adjustments to net assets allocated to contracts in payout period	349	284	-	-
Net increase (decrease) in net assets from contract transactions	(1,351,727)	(1,451,831)	(2,497,366)	(1,548,870)
Total increase (decrease) in net assets	(1,836,893)	(622,756)	(2,693,524)	(1,478,270)
<b>Net assets</b>				
Beginning of period	7,429,394	8,052,150	16,374,108	17,852,378
End of period	\$ 5,592,501	\$ 7,429,394	\$ 13,680,584	\$ 16,374,108

	Invesco V.I. Growth and Income, Series II Shares, Subaccount		Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 127,251	\$ (56,818)	\$ (112,411)	\$ (145,449)
Net realized gain (loss) on investments	4,788,322	4,548,702	2,116,290	1,795,508
Net change in unrealized appreciation (depreciation) on investments	(9,758,406)	624,402	(2,325,459)	427,699
Net increase (decrease) in net assets resulting from operations	(4,842,833)	5,116,286	(321,580)	2,077,758
<b>Contract transactions</b>				
Payments received from contract owners	176,254	192,232	47,913	23,013
Transfers between subaccounts (including fixed accounts), net	(1,121,173)	(6,823,479)	(772,583)	(822,984)
Payment for contract benefits and terminations	(7,130,426)	(9,088,859)	(2,801,661)	(2,393,343)
Contract charges and fees	(301,711)	(365,124)	(58,503)	(73,761)
Adjustments to net assets allocated to contracts in payout period	522	415	-	-
Net increase (decrease) in net assets from contract transactions	(8,376,534)	(16,084,815)	(3,584,834)	(3,267,075)
Total increase (decrease) in net assets	(13,219,367)	(10,968,529)	(3,906,414)	(1,189,317)
<b>Net assets</b>				
Beginning of period	41,186,443	52,154,972	10,403,825	11,593,142
End of period	\$ 27,967,076	\$ 41,186,443	\$ 6,497,411	\$ 10,403,825

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	MFS®		Oppenheimer	
	Strategic Income Portfolio, Initial Class, Subaccount		Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 16,114	\$ 22,161	\$ 13,910	\$ 4,142
Net realized gain (loss) on investments	(3,009)	(524)	(6,203)	(5,968)
Net change in unrealized appreciation (depreciation) on investments	(35,194)	11,253	(30,591)	23,349
Net increase (decrease) in net assets resulting from operations	(22,089)	32,890	(22,884)	21,523
<b>Contract transactions</b>				
Payments received from contract owners	-	-	-	-
Transfers between subaccounts (including fixed accounts), net	(2,109)	(25)	(890)	(5,788)
Payment for contract benefits and terminations	(44,976)	(74,702)	(45,240)	(60,429)
Contract charges and fees	(194)	(253)	(203)	(259)
Adjustments to net assets allocated to contracts in payout period	60	11	(1,287)	241
Net increase (decrease) in net assets from contract transactions	(47,219)	(74,969)	(47,620)	(66,235)
Total increase (decrease) in net assets	(69,308)	(42,079)	(70,504)	(44,712)
<b>Net assets</b>				
Beginning of period	670,392	712,471	426,215	470,927
End of period	\$ 601,084	\$ 670,392	\$ 355,711	\$ 426,215

	Oppenheimer		Oppenheimer Main	
	International Growth Fund/VA, Service Shares, Subaccount		Street Small Cap Fund®/VA, Service Shares, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (128,176)	\$ (40,913)	\$ (121,069)	\$ (84,640)
Net realized gain (loss) on investments	1,933,794	1,615,940	2,105,453	1,830,724
Net change in unrealized appreciation (depreciation) on investments	(5,204,469)	3,274,274	(2,815,201)	(333,862)
Net increase (decrease) in net assets resulting from operations	(3,398,851)	4,849,301	(830,817)	1,412,222
<b>Contract transactions</b>				
Payments received from contract owners	128,112	82,210	41,996	37,827
Transfers between subaccounts (including fixed accounts), net	(333,926)	(1,009,289)	(622,859)	(1,266,350)
Payment for contract benefits and terminations	(4,224,935)	(4,478,926)	(2,525,413)	(2,568,445)
Contract charges and fees	(143,861)	(172,124)	(69,527)	(87,468)
Adjustments to net assets allocated to contracts in payout period	-	-	72	844
Net increase (decrease) in net assets from contract transactions	(4,574,610)	(5,578,129)	(3,175,731)	(3,883,592)
Total increase (decrease) in net assets	(7,973,461)	(728,828)	(4,006,548)	(2,471,370)
<b>Net assets</b>				
Beginning of period	21,138,217	21,867,045	11,175,503	13,646,873
End of period	\$ 13,164,756	\$ 21,138,217	\$ 7,168,955	\$ 11,175,503

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount		PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (81,223)	\$ (77,144)	\$ 53,893	\$ 938,559
Net realized gain (loss) on investments	2,807,169	2,748,569	(1,190,264)	(1,699,450)
Net change in unrealized appreciation (depreciation) on investments	(4,215,876)	556,353	(108,337)	775,328
Net increase (decrease) in net assets resulting from operations	(1,489,930)	3,227,778	(1,244,708)	14,437
<b>Contract transactions</b>				
Payments received from contract owners	54,180	68,421	48,631	50,251
Transfers between subaccounts (including fixed accounts), net	(602,020)	(2,163,472)	164,047	(9,252)
Payment for contract benefits and terminations	(3,547,316)	(5,419,695)	(1,562,507)	(1,938,620)
Contract charges and fees	(121,751)	(151,796)	(68,529)	(81,043)
Adjustments to net assets allocated to contracts in payout period	-	-	-	-
Net increase (decrease) in net assets from contract transactions	(4,216,907)	(7,666,542)	(1,418,358)	(1,978,664)
Total increase (decrease) in net assets	(5,706,837)	(4,438,764)	(2,663,066)	(1,964,227)
<b>Net assets</b>				
Beginning of period	20,712,725	25,151,489	9,366,955	11,331,182
End of period	\$ 15,005,888	\$ 20,712,725	\$ 6,703,889	\$ 9,366,955

	PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount		PIMCO Total Return Portfolio, Advisor Class, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 844,139	\$ 102,736	\$ 398,918	\$ 267,136
Net realized gain (loss) on investments	(240,547)	(442,817)	105,497	(318,096)
Net change in unrealized appreciation (depreciation) on investments	(1,598,692)	1,842,717	(1,295,959)	1,621,779
Net increase (decrease) in net assets resulting from operations	(995,100)	1,502,636	(791,544)	1,570,819
<b>Contract transactions</b>				
Payments received from contract owners	82,535	71,010	128,827	254,819
Transfers between subaccounts (including fixed accounts), net	416,163	111,390	938,205	133,062
Payment for contract benefits and terminations	(3,662,570)	(4,544,900)	(6,692,742)	(10,503,005)
Contract charges and fees	(149,702)	(176,462)	(246,326)	(288,875)
Adjustments to net assets allocated to contracts in payout period	-	-	-	-
Net increase (decrease) in net assets from contract transactions	(3,313,574)	(4,538,962)	(5,872,036)	(10,403,999)
Total increase (decrease) in net assets	(4,308,674)	(3,036,326)	(6,663,580)	(8,833,180)
<b>Net assets</b>				
Beginning of period	20,090,664	23,126,990	40,117,531	48,950,711
End of period	\$ 15,781,990	\$ 20,090,664	\$ 33,453,951	\$ 40,117,531

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	T. Rowe Price International Stock Portfolio, Subaccount		Ultra Series Aggressive Allocation Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (6,647)	\$ (18,289)	\$ 48,434	\$ 42,298
Net realized gain (loss) on investments	573,973	374,874	1,183,009	681,274
Net change in unrealized appreciation (depreciation) on investments	(1,296,961)	841,829	(1,874,685)	714,176
Net increase (decrease) in net assets resulting from operations	(729,635)	1,198,414	(643,242)	1,437,748
<b>Contract transactions</b>				
Payments received from contract owners	-	-	162,769	230,331
Transfers between subaccounts (including fixed accounts), net	(57,914)	(96,002)	148,091	(2,846)
Payment for contract benefits and terminations	(571,858)	(620,129)	(1,000,686)	(1,147,211)
Contract charges and fees	(1,887)	(2,195)	(4,306)	(4,979)
Adjustments to net assets allocated to contracts in payout period	632	760	2,440	1,983
Net increase (decrease) in net assets from contract transactions	(631,027)	(717,566)	(691,692)	(922,722)
Total increase (decrease) in net assets	(1,360,662)	480,848	(1,334,934)	515,026
<b>Net assets</b>				
Beginning of period	5,254,238	4,773,390	9,384,759	8,869,733
End of period	\$ 3,893,576	\$ 5,254,238	\$ 8,049,825	\$ 9,384,759

	Ultra Series Aggressive Allocation Fund, Class II, Subaccount		Ultra Series Core Bond Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (1,225)	\$ 4,698	\$ 934,421	\$ 975,632
Net realized gain (loss) on investments	263,152	172,732	(729,608)	(461,615)
Net change in unrealized appreciation (depreciation) on investments	(391,544)	141,964	(1,380,692)	665,330
Net increase (decrease) in net assets resulting from operations	(129,617)	319,394	(1,175,879)	1,179,347
<b>Contract transactions</b>				
Payments received from contract owners	225	1,514	579,752	185,483
Transfers between subaccounts (including fixed accounts), net	(416,779)	164,562	803,376	292,082
Payment for contract benefits and terminations	(193,043)	(249,873)	(9,018,419)	(9,730,440)
Contract charges and fees	(1,394)	(841)	(82,075)	(85,819)
Adjustments to net assets allocated to contracts in payout period	-	-	(3,340)	(2,095)
Net increase (decrease) in net assets from contract transactions	(610,991)	(84,638)	(7,720,706)	(9,340,789)
Total increase (decrease) in net assets	(740,608)	234,756	(8,896,585)	(8,161,442)
<b>Net assets</b>				
Beginning of period	2,267,172	2,032,416	59,973,976	68,135,418
End of period	\$ 1,526,564	\$ 2,267,172	\$ 51,077,391	\$ 59,973,976

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Core Bond Fund, Class II, Subaccount		Ultra Series Conservative Allocation Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 211,485	\$ 211,905	\$ 492,237	\$ 406,634
Net realized gain (loss) on investments	(167,868)	(124,839)	2,442,297	1,693,866
Net change in unrealized appreciation (depreciation) on investments	(399,502)	148,754	(4,798,459)	3,020,220
Net increase (decrease) in net assets resulting from operations	(355,885)	235,820	(1,863,925)	5,120,720
<b>Contract transactions</b>				
Payments received from contract owners	25,024	34,973	391,492	287,050
Transfers between subaccounts (including fixed accounts), net	721,760	2,471,569	925,659	(483,055)
Payment for contract benefits and terminations	(2,127,901)	(2,968,065)	(10,593,830)	(12,629,730)
Contract charges and fees	(130,041)	(138,173)	(60,409)	(154,789)
Adjustments to net assets allocated to contracts in payout period	-	-	(5,152)	(1,097)
Net increase (decrease) in net assets from contract transactions	(1,511,158)	(599,696)	(9,342,240)	(12,981,621)
Total increase (decrease) in net assets	(1,867,043)	(363,876)	(11,206,165)	(7,860,901)
<b>Net assets</b>				
Beginning of period	15,693,692	16,057,568	57,226,822	65,087,723
End of period	\$ 13,826,649	\$ 15,693,692	\$ 46,020,657	\$ 57,226,822

	Ultra Series Conservative Allocation Fund, Class II, Subaccount		Ultra Series Diversified Income Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 149,535	\$ 135,140	\$ 1,075,477	\$ 1,014,697
Net realized gain (loss) on investments	1,285,712	878,077	9,329,390	5,780,376
Net change in unrealized appreciation (depreciation) on investments	(2,423,407)	1,432,935	(12,505,137)	6,048,691
Net increase (decrease) in net assets resulting from operations	(988,160)	2,446,152	(2,100,270)	12,843,764
<b>Contract transactions</b>				
Payments received from contract owners	131,842	111,116	672,432	979,377
Transfers between subaccounts (including fixed accounts), net	(795,744)	1,629,295	49,375	564,985
Payment for contract benefits and terminations	(5,363,565)	(5,272,053)	(15,020,526)	(15,476,794)
Contract charges and fees	(228,947)	(258,841)	(107,207)	(101,335)
Adjustments to net assets allocated to contracts in payout period	-	-	6,974	(9,012)
Net increase (decrease) in net assets from contract transactions	(6,256,414)	(3,790,483)	(14,398,952)	(14,042,779)
Total increase (decrease) in net assets	(7,244,574)	(1,344,331)	(16,499,222)	(1,199,015)
<b>Net assets</b>				
Beginning of period	29,771,312	31,115,643	114,362,490	115,561,505
End of period	\$ 22,526,738	\$ 29,771,312	\$ 97,863,268	\$ 114,362,490

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Diversified Income Fund, Class II, Subaccount		Ultra Series Foundation Account, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 257,692	\$ 277,530	\$ 5,213	\$ 4,725
Net realized gain (loss) on investments	3,408,152	2,227,667	(838)	(4,289)
Net change in unrealized appreciation (depreciation) on investments	(4,437,249)	1,984,229	(10,007)	5,038
Net increase (decrease) in net assets resulting from operations	(771,405)	4,489,426	(5,632)	5,474
<b>Contract transactions</b>				
Payments received from contract owners	64,444	334,440	-	1,645
Transfers between subaccounts (including fixed accounts), net	836,421	1,769,144	7	47,556
Payment for contract benefits and terminations	(7,382,453)	(6,245,489)	(7,064)	(88,868)
Contract charges and fees	(348,415)	(369,259)	(10)	(12)
Adjustments to net assets allocated to contracts in payout period	-	-	-	-
Net increase (decrease) in net assets from contract transactions	(6,830,003)	(4,511,164)	(7,067)	(39,679)
Total increase (decrease) in net assets	(7,601,408)	(21,738)	(12,699)	(34,205)
<b>Net assets</b>				
Beginning of period	40,526,439	40,548,177	293,667	327,872
End of period	\$ 32,925,031	\$ 40,526,439	\$ 280,968	\$ 293,667

	Ultra Series Foundation Account, Class II, Subaccount		Ultra Series High Income Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 245,683	\$ 256,193	\$ 705,617	\$ 709,614
Net realized gain (loss) on investments	(348,497)	(184,726)	(253,801)	(177,868)
Net change in unrealized appreciation (depreciation) on investments	(329,941)	261,166	(1,249,158)	486,726
Net increase (decrease) in net assets resulting from operations	(432,755)	332,633	(797,342)	1,018,472
<b>Contract transactions</b>				
Payments received from contract owners	71,539	60,102	165,051	56,283
Transfers between subaccounts (including fixed accounts), net	(20,682)	184,730	83,600	340,749
Payment for contract benefits and terminations	(3,279,042)	(3,109,264)	(2,434,944)	(2,843,629)
Contract charges and fees	(11,338)	(17,016)	(18,417)	(21,066)
Adjustments to net assets allocated to contracts in payout period	-	-	433	(480)
Net increase (decrease) in net assets from contract transactions	(3,239,523)	(2,881,448)	(2,204,277)	(2,468,143)
Total increase (decrease) in net assets	(3,672,278)	(2,548,815)	(3,001,619)	(1,449,671)
<b>Net assets</b>				
Beginning of period	19,558,399	22,107,214	19,540,939	20,990,610
End of period	\$ 15,886,121	\$ 19,558,399	\$ 16,539,320	\$ 19,540,939

See accompanying notes to financial statements



**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series High Income Fund, Class II, Subaccount		Ultra Series International Stock Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ 177,665	\$ 184,822	\$ 68,125	\$ (8,728)
Net realized gain (loss) on investments	(63,667)	(34,839)	166,974	(18,355)
Net change in unrealized appreciation (depreciation) on investments	(355,112)	104,237	(3,570,885)	4,740,165
Net increase (decrease) in net assets resulting from operations	(241,114)	254,220	(3,335,786)	4,713,082
<b>Contract transactions</b>				
Payments received from contract owners	37,667	18,556	156,581	241,445
Transfers between subaccounts (including fixed accounts), net	169,534	874,076	216,109	(264,539)
Payment for contract benefits and terminations	(868,435)	(840,150)	(2,898,108)	(3,896,458)
Contract charges and fees	(54,981)	(58,669)	(31,930)	(36,692)
Adjustments to net assets allocated to contracts in payout period	-	-	(5,252)	2,113
Net increase (decrease) in net assets from contract transactions	(716,215)	(6,187)	(2,562,600)	(3,954,131)
Total increase (decrease) in net assets	(957,329)	248,033	(5,898,386)	758,951
<b>Net assets</b>				
Beginning of period	5,561,885	5,313,852	24,794,637	24,035,686
End of period	\$ 4,604,556	\$ 5,561,885	\$ 18,896,251	\$ 24,794,637

	Ultra Series International Stock Fund, Class II, Subaccount		Ultra Series Large Cap Growth Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (1,228)	\$ (39,085)	\$ (437,242)	\$ (401,555)
Net realized gain (loss) on investments	368,237	277,474	22,439,172	11,205,562
Net change in unrealized appreciation (depreciation) on investments	(2,060,748)	2,272,400	(22,816,482)	2,724,606
Net increase (decrease) in net assets resulting from operations	(1,693,739)	2,510,789	(814,552)	13,528,613
<b>Contract transactions</b>				
Payments received from contract owners	69,049	51,220	475,198	411,829
Transfers between subaccounts (including fixed accounts), net	(223,103)	162,118	(1,366,531)	(1,700,288)
Payment for contract benefits and terminations	(2,068,034)	(2,127,437)	(9,175,445)	(9,569,281)
Contract charges and fees	(122,617)	(134,936)	(62,393)	(63,036)
Adjustments to net assets allocated to contracts in payout period	-	-	550	(9,024)
Net increase (decrease) in net assets from contract transactions	(2,344,705)	(2,049,035)	(10,128,621)	(10,929,800)
Total increase (decrease) in net assets	(4,038,444)	461,754	(10,943,173)	2,598,813
<b>Net assets</b>				
Beginning of period	13,257,281	12,795,527	72,371,294	69,772,481
End of period	\$ 9,218,837	\$ 13,257,281	\$ 61,428,121	\$ 72,371,294

See accompanying notes to financial statements



**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Large Cap Growth Fund, Class II, Subaccount		Ultra Series Large Cap Value Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (177,638)	\$ (181,919)	\$ 165,975	\$ 1,021,325
Net realized gain (loss) on investments	6,852,670	3,785,248	8,215,870	5,393,257
Net change in unrealized appreciation (depreciation) on investments	(6,889,482)	858,803	(20,808,992)	7,674,140
Net increase (decrease) in net assets resulting from operations	(214,450)	4,462,132	(12,427,147)	14,088,722
<b>Contract transactions</b>				
Payments received from contract owners	130,673	95,944	660,377	633,175
Transfers between subaccounts (including fixed accounts), net	(1,487,090)	(798,240)	(1,046,375)	(1,249,456)
Payment for contract benefits and terminations	(3,945,847)	(3,842,269)	(12,792,778)	(13,553,036)
Contract charges and fees	(224,149)	(246,082)	(69,711)	(70,671)
Adjustments to net assets allocated to contracts in payout period	-	-	(20,053)	(11,019)
Net increase (decrease) in net assets from contract transactions	(5,526,413)	(4,790,647)	(13,268,540)	(14,251,007)
Total increase (decrease) in net assets	(5,740,863)	(328,515)	(25,695,687)	(162,285)
<b>Net assets</b>				
Beginning of period	23,445,270	23,773,785	104,030,206	104,192,491
End of period	\$ 17,704,407	\$ 23,445,270	\$ 78,334,519	\$ 104,030,206

	Ultra Series Large Cap Value Fund, Class II, Subaccount		Ultra Series Mid Cap Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (5,264)	\$ 45,190	\$ (843,432)	\$ (875,611)
Net realized gain (loss) on investments	496,310	391,950	12,448,581	8,716,180
Net change in unrealized appreciation (depreciation) on investments	(1,112,436)	282,434	(12,969,735)	1,371,638
Net increase (decrease) in net assets resulting from operations	(621,390)	719,574	(1,364,586)	9,212,207
<b>Contract transactions</b>				
Payments received from contract owners	3,660	11,067	314,042	624,109
Transfers between subaccounts (including fixed accounts), net	(402,434)	1,013,743	(1,530,870)	(2,391,638)
Payment for contract benefits and terminations	(643,791)	(868,927)	(7,903,960)	(9,656,991)
Contract charges and fees	(46,479)	(44,959)	(57,569)	(61,132)
Adjustments to net assets allocated to contracts in payout period	-	-	4,662	1,736
Net increase (decrease) in net assets from contract transactions	(1,089,044)	110,924	(9,173,695)	(11,483,916)
Total increase (decrease) in net assets	(1,710,434)	830,498	(10,538,281)	(2,271,709)
<b>Net assets</b>				
Beginning of period	5,539,092	4,708,594	68,775,687	71,047,396
End of period	\$ 3,828,658	\$ 5,539,092	\$ 58,237,406	\$ 68,775,687

See accompanying notes to financial statements

**CMFG Variable Annuity Account**  
**Statements of Changes in Net Assets (continued)**  
**For the Years Ended December 31,**

	Ultra Series Mid Cap Fund, Class II, Subaccount		Ultra Series Moderate Allocation Fund, Class I, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (130,376)	\$ (143,596)	\$ (255,920)	\$ 665,158
Net realized gain (loss) on investments	2,016,937	1,522,426	9,427,542	6,699,810
Net change in unrealized appreciation (depreciation) on investments	(2,047,539)	5,321	(14,313,943)	5,977,719
Net increase (decrease) in net assets resulting from operations	(160,978)	1,384,151	(5,142,321)	13,342,687
<b>Contract transactions</b>				
Payments received from contract owners	44,566	29,525	336,979	747,933
Transfers between subaccounts (including fixed accounts), net	(736,230)	(126,350)	(731,135)	2,959,951
Payment for contract benefits and terminations	(1,637,716)	(1,815,159)	(14,072,358)	(20,008,246)
Contract charges and fees	(97,131)	(105,348)	(307,958)	(106,326)
Adjustments to net assets allocated to contracts in payout period	-	-	13,803	997
Net increase (decrease) in net assets from contract transactions	(2,426,511)	(2,017,332)	(14,760,669)	(16,405,691)
Total increase (decrease) in net assets	(2,587,489)	(633,181)	(19,902,990)	(3,063,004)
<b>Net assets</b>				
Beginning of period	10,508,613	11,141,794	105,078,970	108,141,974
End of period	\$ 7,921,124	\$ 10,508,613	\$ 85,175,980	\$ 105,078,970

	Ultra Series Moderate Allocation Fund, Class II, Subaccount		Vanguard VIF Money Market Portfolio, Subaccount	
	2018	2017	2018	2017
<b>Increase (decrease) in net assets from operations</b>				
Net investment income (loss)	\$ (131,146)	\$ 78,357	\$ 158,268	\$ (68,603)
Net realized gain (loss) on investments	2,792,234	2,144,050	-	-
Net change in unrealized appreciation (depreciation) on investments	(3,932,399)	1,164,760	-	-
Net increase (decrease) in net assets resulting from operations	(1,271,311)	3,387,167	158,268	(68,603)
<b>Contract transactions</b>				
Payments received from contract owners	467,533	165,519	167,594	264,392
Transfers between subaccounts (including fixed accounts), net	938,722	1,175,237	1,680,586	20,703,309
Payment for contract benefits and terminations	(6,400,760)	(5,614,760)	(8,150,310)	(5,593,318)
Contract charges and fees	(196,954)	(217,880)	(139,667)	(119,312)
Adjustments to net assets allocated to contracts in payout period	-	-	(1,901)	(43,567)
Net increase (decrease) in net assets from contract transactions	(5,191,459)	(4,491,884)	(6,443,698)	15,211,504
Total increase (decrease) in net assets	(6,462,770)	(1,104,717)	(6,285,430)	15,142,901
<b>Net assets</b>				
Beginning of period	26,764,909	27,869,626	30,547,545	15,404,644
End of period	\$ 20,302,139	\$ 26,764,909	\$ 24,262,115	\$ 30,547,545

See accompanying notes to financial statements

## **CMFG Variable Annuity Account**

### **Notes to Financial Statements**

#### **(1) Organization**

The CMFG Variable Annuity Account (“the Account”) is a separate account of CMFG Life Insurance Company (“the Company”). The Account is registered with the Securities and Exchange Commission (“SEC”) as a unit investment trust under the Investment Company Act of 1940 (“1940 Act”) as amended.

The Account was established to receive and invest net premiums paid by the contract owners to the Company under four variable annuity contracts (“contracts”) issued by the Company: MEMBERS® Variable Annuity, MEMBERS® Variable Annuity II, MEMBERS® Choice Variable Annuity and MEMBERS® Variable Annuity III.

The Account is divided into a number of subaccounts, each of which is treated as an individual accounting entity for financial reporting purposes. Each subaccount invests solely in a corresponding portfolio of one of the following funds, each an open-end management investment company registered with the SEC.

#### **BlackRock Variable Series Funds, Inc.**

BlackRock Global Allocation V.I. Fund <sup>(2)</sup>

#### **Franklin Templeton Variable Insurance Products Trust**

Franklin Income VIP Fund

Franklin Mutual Global Discovery VIP Fund

Templeton Developing Markets VIP Fund <sup>(1)</sup>

#### **AIM Variable Insurance Funds**

##### **(Invesco Variable Insurance Funds)**

Invesco V.I. Global Real Estate Fund

Invesco V.I. Government Securities Fund <sup>(2)</sup>

Invesco V.I. Growth and Income Fund

Invesco V.I. Mid Cap Growth Fund

#### **MFS® Variable Insurance Trust II**

MFS® Strategic Income Portfolio <sup>(1)</sup>

#### **Oppenheimer Variable Account Funds**

Oppenheimer Global Strategic Income Fund/VA <sup>(1)</sup>

Oppenheimer International Growth Fund/VA

Oppenheimer Main Street Small Cap Fund®/VA

Oppenheimer Main Street Fund®/VA

#### **PIMCO Variable Insurance Trust**

PIMCO CommodityRealReturn® Strategy Portfolio

PIMCO Global Bond Opportunities Portfolio  
(Unhedged)

PIMCO Total Return Portfolio

#### **T. Rowe Price International Series, Inc.**

T. Rowe Price International Stock Portfolio <sup>(1)</sup>

#### **Ultra Series Fund<sup>(3)</sup>**

Aggressive Allocation Fund

Core Bond Fund

Conservative Allocation Fund

Diversified Income Fund

Foundation Account<sup>(4)</sup>

High Income Fund

International Stock Fund

Large Cap Growth Fund

Large Cap Value Fund

Mid Cap Fund

Moderate Allocation Fund

#### **Vanguard Variable Insurance Fund**

Vanguard VIF Money Market Portfolio

<sup>(1)</sup> This subaccount is only available in the MEMBERS® Variable Annuity product.

<sup>(2)</sup> This subaccount is only available in the MEMBERS® Variable Annuity III product.

<sup>(3)</sup> The Ultra Series Fund offers both Class 1 and 2 shares to contract owners. Class 2 shares are only available in the MEMBERS® Variable Annuity III product.

<sup>(4)</sup> The Foundation Subaccount is only available in the MEMBERS® Variable Annuity III product, and is one of two available subaccounts that invest in the Ultra Series Core Bond Fund.

The accompanying financial statements include only the contract owner assets, deposits, investment activity, and the contract transactions applicable to the variable portions of the contracts and exclude assets and activity for deposits for fixed dollar benefits, which are included in the general account of the Company. The net investment income and the realized and unrealized gains and losses from the assets for each subaccount are credited to or charged against that subaccount without regard to income, gains or losses from any other subaccount.

#### **(2) Significant Accounting Policies**

##### *Basis of Presentation*

The Account is an investment company and follows the accounting and reporting guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 946, *Financial Services-Investment Companies*.

## **CMFG Variable Annuity Account**

### **Notes to Financial Statements**

#### **(2) Significant Accounting Policies (continued)**

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

##### *Investment Valuation*

Investments are made in shares of a fund and are recorded at fair value, determined by the net asset value per share of the respective fund. Investment transactions in each fund are recorded on the trade date. Realized gains and losses on redemptions of the shares of the fund are determined using the average cost basis. Income from dividends and gains from realized gain distributions from each fund are recorded on the ex-dividend date and are reinvested in that fund. The difference between cost and fair value of investments owned on the day of measurement is recorded as unrealized appreciation or depreciation of investments.

##### *Federal Income Taxes*

The operations of the Account are included in the consolidated federal income tax return of CUNA Mutual Holding Company ("CMHC"), the Company's ultimate parent, and its subsidiaries. The Company is taxed as a life insurance company under the provisions of the Internal Revenue Code ("IRC"). The Account's activities are included in the Company's taxable income. Under current provisions of the IRC, the Company does not expect to incur federal income taxes on recorded earnings or the realized capital gains attributed to the Account to the extent these earnings are credited to the contract owner's account. Accordingly, no provision for income tax is currently recorded. If such taxes are incurred by the Company in the future, a tax provision may be recorded.

##### *Contracts in Annuitization Period*

Contracts in the payout stage (annuitization period) are computed according to the 2000 Individual Annuity Mortality Table using an assumed investment return of 3.5%. The mortality risk arises because the Company bears the risk from contract riders, as described in the Fees and Charges note, which may result in additional amounts being transferred into the Account by the Company to cover greater than expected longevity of annuitants. Conversely, if reserves exceed amounts required, transfers may be made to the Company.

#### **(3) Fees and Charges**

##### *Contract Charges*

**Surrender Charge.** A surrender charge is assessed against a contract owner's account upon surrender or partial withdrawal of payments received from contract owners within the first seven years of the contract period and, in certain circumstances, surrender charges are waived upon payment of a death benefit or the election of certain annuity payment options.

For purchase payments withdrawn or surrendered within the first year of the contract, a charge of 7% to 9% of the amount of the payment withdrawn or surrendered is assessed depending on the product version chosen. The surrender charge decreases by 1% (or the noted percentage decrease outlined in the contract) for each full year that has elapsed since the purchase payment was recorded. No surrender charge is assessed upon the withdrawal or surrender of the contract value in excess of aggregate purchase payments or on purchase payments made more than seven years prior to the withdrawal or surrender. No surrender charge is assessed on purchase payments made more than four years prior to the withdrawal or surrender for one of the contract options of the MEMBERS® Variable Annuity III product. Subject to certain restrictions in each contract year, an amount equal to 10% of aggregate purchase payments subject to a surrender charge (as of the time of withdrawal or surrender) may be surrendered without a surrender charge. The surrender charge also may be waived in certain circumstances as provided in the contracts. These charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

## **CMFG Variable Annuity Account**

### **Notes to Financial Statements**

#### **(3) Fees and Charges (continued)**

**Annual Contract Fee.** On each contract anniversary prior to the annuity date, the Company deducts an annual contract fee of \$30 from the contract owner's account. After the annuity date, the Company deducts this fee from variable annuity payments. A pro-rated portion of the fee is deducted upon annuitization of a contract except on a contract anniversary when the full fee is deducted. The Company currently waives this fee for all contracts with \$50,000 or more of contract value for the MEMBERS® Variable Annuity III product and \$25,000 or more of contract value for all other products. These charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

**Death Benefit Rider Charges.** Optional death benefit riders are available on MEMBERS® Variable Annuity II and MEMBERS® Choice Variable Annuity contracts. The Maximum Anniversary Value Death Benefit and 5% Annual Guarantee Death Benefit Riders are available for issue ages 0 to 75. The Minimum Death Benefit Guarantee Rider is available for issue ages 76 to 85. All death benefit rider charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

On each contract anniversary (or upon surrender of the contract) prior to the annuity date, the Company deducts rider fees from the contract value. The annual charge for each of these riders ranges from 0.15% to 0.20% of average assets during the prior contract year.

Optional death benefit riders are also available on MEMBERS® Variable Annuity III contracts. The Maximum Anniversary Value Death Benefit, 3% Annual Guarantee Death Benefit and Earnings Enhanced Death Benefit Riders are available for issue ages 0 to 75. On each contract anniversary (or upon surrender of the contract) prior to the annuity date, the Company deducts the applicable rider fees from the contract value. The annual charge for each of these riders ranges from 0.15% to 0.35% of average assets during the prior contract year.

**Living Benefit Riders.** Optional living benefit riders, such as Guaranteed Minimum Withdrawal Benefit, Guaranteed Lifetime Withdrawal Benefit, and Guaranteed Minimum Accumulation Benefit are available. Charges for these benefits range from 0.50% to 1.75%. Generally, the charge is assessed on the average benefit basis for the prior contract year. These charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

**Transfer Fee.** No charge is generally made for transfers between subaccounts. However, the Company reserves the right to charge \$10 for the 13th and each subsequent transfer during a contract year. These charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

**Premium Taxes.** If state or other premium taxes are applicable to a contract, they will be deducted either: (a) from purchase payments as they are received, (b) from contract value upon surrender or partial withdrawal, (c) upon application of adjusted contract value to an annuity payment option, or (d) upon payment of a death benefit. The Company, however, reserves the right to deduct premium taxes at the time it pays such taxes. These charges are deducted by redeeming an appropriate number of units for each contract and are included in contract charges and fees on the accompanying Statements of Changes in Net Assets of the applicable subaccount.

#### *Account Charges*

**Mortality and Expense Risk Charge.** The Company deducts a daily mortality and expense risk charge from the assets of the subaccount to compensate it for assuming certain mortality and expense risks. The charge is deducted from the assets of the subaccount at an annual rate of 1.15% to 1.65%. These charges are included in mortality and expense charges in the accompanying Statement of Operations of the applicable subaccount.

## **CMFG Variable Annuity Account**

### **Notes to Financial Statements**

#### **(3) Fees and Charges (continued)**

**Administrative Charge.** The Company deducts a daily administrative charge from the assets of the subaccount to compensate it for certain expenses it incurs in administration of MEMBERS® Variable Annuity and MEMBERS® Variable Annuity III contracts. The charge is deducted from the assets of the subaccount at an annual rate of 0.15%. These charges are included in administrative charges in the accompanying Statement of Operations of the applicable subaccount.

#### **(4) Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of assets and liabilities into three broad levels. The Account has categorized its financial instruments, based on the degree of subjectivity inherent in the valuation technique, as follows:

- Level 1: Inputs are directly observable and represent quoted prices for identical assets or liabilities in active markets the Account has the ability to access at the measurement date.
- Level 2: All significant inputs are observable, either directly or indirectly, other than quoted prices included in Level 1, for the asset or liability. This includes: (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active and (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: One or more significant inputs are unobservable and reflect the Account's estimates of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The hierarchy requires the use of market observable information when available for assessing fair value.

# CMFG Variable Annuity Account

## Notes to Financial Statements

### (4) Fair Value (continued)

The following table summarizes the Account's assets that are measured at fair value as of December 31, 2018. All of the Account's assets consist of Level 2 mutual funds that have daily quoted net asset values at which the Account could transact.

December 31, 2018 Assets, at Fair Value	Total
BlackRock Global Allocation V.I. Fund, Class III, Subaccount	\$ 16,619,031
Franklin Income VIP Fund, Class 4, Subaccount	10,791,576
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	6,452,387
Templeton Developing Markets VIP Fund, Class 2, Subaccount	678,619
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	5,592,501
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	13,680,584
Invesco V.I. Growth and Income, Series II Shares, Subaccount	27,967,076
Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount	6,497,411
MFS® Strategic Income Portfolio, Initial Class, Subaccount	601,084
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	355,711
Oppenheimer International Growth Fund/VA, Service Shares, Subaccount	13,164,756
Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount	7,168,955
Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount	15,005,888
PIMCO CommodityRealReturn® Strategy Portfolio, Advisor Class, Subaccount	6,703,889
PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount	15,781,990
PIMCO Total Return Portfolio, Advisor Class, Subaccount	33,453,951
T. Rowe Price International Stock Portfolio, Subaccount	3,893,576
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	8,049,825
Ultra Series Aggressive Allocation Fund, Class II, Subaccount	1,526,564
Ultra Series Core Bond Fund, Class I, Subaccount	51,077,391
Ultra Series Core Bond Fund, Class II, Subaccount	13,826,649
Ultra Series Conservative Allocation Fund, Class I, Subaccount	46,020,657
Ultra Series Conservative Allocation Fund, Class II, Subaccount	22,526,738
Ultra Series Diversified Income Fund, Class I, Subaccount	97,863,268
Ultra Series Diversified Income Fund, Class II, Subaccount	32,925,031
Ultra Series Foundation Account, Class I, Subaccount	280,968
Ultra Series Foundation Account, Class II, Subaccount	15,886,121
Ultra Series High Income Fund, Class I, Subaccount	16,539,320
Ultra Series High Income Fund, Class II, Subaccount	4,604,556
Ultra Series International Stock Fund, Class I, Subaccount	18,896,251
Ultra Series International Stock Fund, Class II, Subaccount	9,218,837
Ultra Series Large Cap Growth Fund, Class I, Subaccount	61,428,121
Ultra Series Large Cap Growth Fund, Class II, Subaccount	17,704,407
Ultra Series Large Cap Value Fund, Class I, Subaccount	78,334,519
Ultra Series Large Cap Value Fund, Class II, Subaccount	3,828,658
Ultra Series Mid Cap Fund, Class I, Subaccount	58,237,406
Ultra Series Mid Cap Fund, Class II, Subaccount	7,921,124
Ultra Series Moderate Allocation Fund, Class I, Subaccount	85,175,980
Ultra Series Moderate Allocation Fund, Class II, Subaccount	20,302,139
Vanguard Variable Insurance Fund Money Market Portfolio, Subaccount	24,262,115

There were no Level 3 investments in the Account, therefore, Level 3 roll-forward tables have not been provided. There were no transfers between levels during the year ended December 31, 2018.

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(4) Fair Value (continued)**

The following table summarizes the Account's assets that are measured at fair value as of December 31, 2017. All of the Account's assets consist of Level 2 mutual funds that have daily quoted net asset values at which the Account could transact.

December 31, 2017 Assets, at Fair Value	Total
BlackRock Global Allocation V.I. Fund, Class III, Subaccount	\$ 25,404,536
Franklin Income VIP Fund, Class 4, Subaccount	14,872,441
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	8,974,425
Templeton Developing Markets VIP Fund, Class 2, Subaccount	914,360
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	7,429,394
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	16,374,108
Invesco V.I. Growth and Income, Series II Shares, Subaccount	41,186,443
Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount	10,403,825
MFS® Strategic Income Portfolio, Initial Class, Subaccount	670,392
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	426,215
Oppenheimer International Growth Fund/VA, Service Shares, Subaccount	21,138,217
Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount	11,175,503
Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount	20,712,725
PIMCO CommodityRealReturn® Strategy Portfolio, Advisor Class, Subaccount	9,366,955
PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount	20,090,664
PIMCO Total Return Portfolio, Advisor Class, Subaccount	40,117,531
T. Rowe Price International Stock Portfolio, Subaccount	5,254,238
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	9,384,759
Ultra Series Aggressive Allocation Fund, Class II, Subaccount	2,267,172
Ultra Series Core Bond Fund, Class I, Subaccount	59,973,976
Ultra Series Core Bond Fund, Class II, Subaccount	15,693,692
Ultra Series Conservative Allocation Fund, Class I, Subaccount	57,226,822
Ultra Series Conservative Allocation Fund, Class II, Subaccount	29,771,312
Ultra Series Diversified Income Fund, Class I, Subaccount	114,362,490
Ultra Series Diversified Income Fund, Class II, Subaccount	40,526,439
Ultra Series Foundation Account, Class I, Subaccount	293,667
Ultra Series Foundation Account, Class II, Subaccount	19,558,399
Ultra Series High Income Fund, Class I, Subaccount	19,540,939
Ultra Series High Income Fund, Class II, Subaccount	5,561,885
Ultra Series International Stock Fund, Class I, Subaccount	24,794,637
Ultra Series International Stock Fund, Class II, Subaccount	13,257,281
Ultra Series Large Cap Growth Fund, Class I, Subaccount	72,371,294
Ultra Series Large Cap Growth Fund, Class II, Subaccount	23,445,270
Ultra Series Large Cap Value Fund, Class I, Subaccount	104,030,206
Ultra Series Large Cap Value Fund, Class II, Subaccount	5,539,092
Ultra Series Mid Cap Fund, Class I, Subaccount	68,775,687
Ultra Series Mid Cap Fund, Class II, Subaccount	10,508,613
Ultra Series Moderate Allocation Fund, Class I, Subaccount	105,078,970
Ultra Series Moderate Allocation Fund, Class II, Subaccount	26,764,909
Vanguard Variable Insurance Fund Money Market Portfolio, Subaccount	30,547,545

There were no Level 3 investments in the Account, therefore, Level 3 roll-forward tables have not been provided. There were no transfers between levels during the year ended December 31, 2017.



**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(5) Purchases and Sales of Investments**

The cost of purchases and proceeds from sales of investments in the various subaccounts for the year ended December 31, 2018 were as follows:

<b>Year Ended December 31, 2018</b>	<b>Purchases</b>	<b>Sales</b>
BlackRock Global Allocation V.I. Fund, Class III, Subaccount	\$ 1,033,152	\$ 7,483,171
Franklin Income VIP Fund, Class 4, Subaccount	759,026	3,785,528
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	377,520	1,836,490
Templeton Developing Markets VIP Fund, Class 2, Subaccount	7,798	102,774
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	365,234	1,499,112
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	590,793	3,005,753
Invesco V.I. Growth and Income, Series II Shares, Subaccount	4,032,352	9,071,735
Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount	978,988	3,816,998
MFS® Strategic Income Portfolio, Initial Class, Subaccount	27,422	58,527
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	20,797	54,507
Oppenheimer International Growth Fund/VA, Service Shares, Subaccount	983,289	5,371,481
Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount	1,271,196	3,372,907
Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount	1,932,905	4,624,663
PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount	338,087	1,702,552
PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount	1,424,486	3,847,256
PIMCO Total Return Portfolio, Advisor Class, Subaccount	1,889,659	6,955,408
T. Rowe Price International Stock Portfolio, Subaccount	566,644	779,530
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	1,623,906	1,127,050
Ultra Series Aggressive Allocation Fund, Class II, Subaccount	252,016	645,079
Ultra Series Core Bond Fund, Class I, Subaccount	3,192,232	9,978,517
Ultra Series Core Bond Fund, Class II, Subaccount	909,502	2,209,175
Ultra Series Conservative Allocation Fund, Class I, Subaccount	6,255,355	12,791,355
Ultra Series Conservative Allocation Fund, Class II, Subaccount	2,051,712	7,018,493
Ultra Series Diversified Income Fund, Class I, Subaccount	12,673,174	17,639,354
Ultra Series Diversified Income Fund, Class II, Subaccount	4,774,350	8,518,324
Ultra Series Foundation Account, Class I, Subaccount	9,216	11,069
Ultra Series Foundation Account, Class II, Subaccount	797,537	3,791,377
Ultra Series High Income Fund, Class I, Subaccount	1,310,113	2,808,773
Ultra Series High Income Fund, Class II, Subaccount	347,423	885,972
Ultra Series International Stock Fund, Class I, Subaccount	1,111,459	3,605,934
Ultra Series International Stock Fund, Class II, Subaccount	254,341	2,600,275
Ultra Series Large Cap Growth Fund, Class I, Subaccount	22,576,105	12,146,496
Ultra Series Large Cap Growth Fund, Class II, Subaccount	6,315,705	5,898,078
Ultra Series Large Cap Value Fund, Class I, Subaccount	10,921,874	15,808,759
Ultra Series Large Cap Value Fund, Class II, Subaccount	520,874	1,206,595
Ultra Series Mid Cap Fund, Class I, Subaccount	11,176,258	10,467,087
Ultra Series Mid Cap Fund, Class II, Subaccount	1,512,369	2,576,495
Ultra Series Moderate Allocation Fund, Class I, Subaccount	10,296,511	16,638,337
Ultra Series Moderate Allocation Fund, Class II, Subaccount	3,762,426	7,009,033
Vanguard VIF Money Market Portfolio, Subaccount	4,238,050	10,523,480

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(5) Purchases and Sales of Investments (continued)**

The cost of purchases and proceeds from sales of investments in the various subaccounts for the year ended December 31, 2017 were as follows:

<b>Year Ended December 31, 2017</b>	<b>Purchases</b>	<b>Sales</b>
BlackRock Global Allocation V.I. Fund, Class III, Subaccount	\$ 786,086	\$ 4,990,477
Franklin High Income VIP Fund, Class 4, Subaccount	75,234	22,347,386
Franklin Income VIP Fund, Class 4, Subaccount	1,314,872	4,423,051
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount	1,062,481	3,131,151
Templeton Developing Markets VIP Fund, Class 2, Subaccount	8,810	70,089
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount	595,228	1,796,047
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount	1,140,461	2,600,157
Invesco V.I. Growth and Income, Series II Shares, Subaccount	2,677,405	17,088,749
Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount	1,125,691	3,883,432
MFS® Strategic Income Portfolio, Initial Class, Subaccount	32,077	84,885
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount	10,764	72,858
Oppenheimer International Growth Fund/VA, Service Shares, Subaccount	980,132	6,599,174
Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount	1,211,029	4,549,022
Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount	1,487,876	8,863,479
PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount	1,415,183	2,455,289
PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount	1,200,876	5,637,101
PIMCO Total Return Portfolio, Advisor Class, Subaccount	2,792,601	12,929,465
T. Rowe Price International Stock Portfolio, Subaccount	307,850	841,259
Ultra Series Aggressive Allocation Fund, Class I, Subaccount	1,220,183	1,494,106
Ultra Series Aggressive Allocation Fund, Class II, Subaccount	391,589	324,371
Ultra Series Core Bond Fund, Class I, Subaccount	3,467,648	11,832,806
Ultra Series Core Bond Fund, Class II, Subaccount	2,684,807	3,072,597
Ultra Series Conservative Allocation Fund, Class I, Subaccount	4,578,207	15,637,633
Ultra Series Conservative Allocation Fund, Class II, Subaccount	3,223,204	6,088,704
Ultra Series Diversified Income Fund, Class I, Subaccount	10,056,549	18,367,405
Ultra Series Diversified Income Fund, Class II, Subaccount	5,394,955	7,945,436
Ultra Series Foundation Account, Class I, Subaccount	58,231	93,186
Ultra Series Foundation Account, Class II, Subaccount	960,963	3,586,218
Ultra Series High Income Fund, Class I, Subaccount	1,664,402	3,422,931
Ultra Series High Income Fund, Class II, Subaccount	1,091,905	913,270
Ultra Series International Stock Fund, Class I, Subaccount	1,009,529	4,972,387
Ultra Series International Stock Fund, Class II, Subaccount	645,397	2,733,517
Ultra Series Large Cap Growth Fund, Class I, Subaccount	10,937,377	13,503,155
Ultra Series Large Cap Growth Fund, Class II, Subaccount	3,491,364	5,575,584
Ultra Series Large Cap Value Fund, Class I, Subaccount	9,316,016	16,813,432
Ultra Series Large Cap Value Fund, Class II, Subaccount	1,700,512	1,235,675
Ultra Series Mid Cap Fund, Class I, Subaccount	7,498,938	13,321,899
Ultra Series Mid Cap Fund, Class II, Subaccount	1,391,069	2,536,002
Ultra Series Moderate Allocation Fund, Class I, Subaccount	11,529,025	21,778,420
Ultra Series Moderate Allocation Fund, Class II, Subaccount	3,333,711	6,341,865
Vanguard VIF Money Market Portfolio, Subaccount	24,758,539	9,615,638

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding**

The changes in units outstanding for the years ended December 31, 2018 and 2017 were as follows:

	<b>BlackRock Global Allocation V.I. Fund, Class III, Subaccount</b>	<b>Franklin Income VIP Fund, Class 4, Subaccount</b>	<b>Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount</b>
<b>Units outstanding at December 31, 2016</b>	2,102,695	1,250,390	749,233
Units issued	96,943	904,733	722,572
Units redeemed	(419,905)	(1,152,631)	(894,675)
<b>Units outstanding at December 31, 2017</b>	<b>1,779,733</b>	<b>1,002,492</b>	<b>577,130</b>
Units issued	61,626	656,160	552,639
Units redeemed	(565,210)	(886,913)	(655,665)
<b>Units outstanding at December 31, 2018</b>	<b>1,276,149</b>	<b>771,739</b>	<b>474,104</b>

	<b>Templeton Developing Markets VIP Fund, Class 2, Subaccount</b>	<b>Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount</b>	<b>Invesco V.I. Government Securities Fund, Series II Shares, Subaccount</b>
<b>Units outstanding at December 31, 2016</b>	58,608	776,727	1,712,331
Units issued	23	766,423	1,739,222
Units redeemed	(4,075)	(899,735)	(1,886,792)
<b>Units outstanding at December 31, 2017</b>	<b>54,556</b>	<b>643,415</b>	<b>1,564,761</b>
Units issued	-	601,537	1,529,182
Units redeemed	(5,840)	(720,948)	(1,770,550)
<b>Units outstanding at December 31, 2018</b>	<b>48,716</b>	<b>524,004</b>	<b>1,323,393</b>

	<b>Invesco V.I. Growth and Income, Series II Shares, Subaccount</b>	<b>Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount</b>	<b>MFS® Strategic Income Portfolio, Initial Class, Subaccount</b>
<b>Units outstanding at December 31, 2016</b>	3,131,848	798,134	31,453
Units issued	2,596,508	746,451	3
Units redeemed	(3,530,976)	(948,609)	(3,205)
<b>Units outstanding at December 31, 2017</b>	<b>2,197,380</b>	<b>595,976</b>	<b>28,251</b>
Units issued	1,926,943	462,428	97
Units redeemed	(2,373,940)	(657,324)	(2,123)
<b>Units outstanding at December 31, 2018</b>	<b>1,750,383</b>	<b>401,080</b>	<b>26,225</b>

	<b>Oppenheimer Global Strategic Income Fund/VA, Service Shares, Subaccount</b>	<b>Oppenheimer Main International Growth Fund/VA, Service Shares, Subaccount</b>	<b>Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount</b>
<b>Units outstanding at December 31, 2016</b>	100,633	1,979,513	701,356
Units issued	77	1,858,858	607,463
Units redeemed	(13,191)	(2,304,692)	(798,078)
<b>Units outstanding at December 31, 2017</b>	<b>87,519</b>	<b>1,533,679</b>	<b>510,741</b>
Units issued	69	1,346,943	397,722
Units redeemed	(9,922)	(1,674,227)	(537,167)
<b>Units outstanding at December 31, 2018</b>	<b>77,666</b>	<b>1,206,395</b>	<b>371,296</b>

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding (continued)**

	Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount	PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount	PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount
<b>Units outstanding at December 31, 2016</b>	1,529,686	2,648,819	1,997,238
Units issued	1,281,822	2,683,253	1,965,387
Units redeemed	(1,717,738)	(3,159,316)	(2,344,921)
<b>Units outstanding at December 31, 2017</b>	<b>1,093,770</b>	<b>2,172,756</b>	<b>1,617,704</b>
Units issued	897,478	2,148,332	1,538,663
Units redeemed	(1,117,092)	(2,489,943)	(1,810,783)
<b>Units outstanding at December 31, 2018</b>	<b>874,156</b>	<b>1,831,145</b>	<b>1,345,584</b>

	PIMCO Total Return Portfolio, Advisor Class, Subaccount	T. Rowe Price International Stock Portfolio, Subaccount	Ultra Series Aggressive Allocation Fund, Class I, Subaccount
<b>Units outstanding at December 31, 2016</b>	3,716,282	250,500	713,114
Units issued	3,168,707	2,311	188,988
Units redeemed	(3,942,153)	(34,158)	(256,876)
<b>Units outstanding at December 31, 2017</b>	<b>2,942,836</b>	<b>218,653</b>	<b>645,226</b>
Units issued	2,549,425	273	171,114
Units redeemed	(2,988,928)	(27,595)	(217,139)
<b>Units outstanding at December 31, 2018</b>	<b>2,503,333</b>	<b>191,331</b>	<b>599,201</b>

	Ultra Series Aggressive Allocation Fund, Class II, Subaccount	Ultra Series Core Bond Fund, Class I, Subaccount	Ultra Series Core Bond Fund, Class II, Subaccount
<b>Units outstanding at December 31, 2016</b>	106,576	4,613,739	1,394,884
Units issued	17,758	3,648,201	1,689,177
Units redeemed	(22,439)	(4,258,019)	(1,736,089)
<b>Units outstanding at December 31, 2017</b>	<b>101,895</b>	<b>4,003,921</b>	<b>1,347,972</b>
Units issued	4,278	3,424,046	1,282,586
Units redeemed	(31,888)	(3,952,963)	(1,416,824)
<b>Units outstanding at December 31, 2018</b>	<b>74,285</b>	<b>3,475,004</b>	<b>1,213,734</b>

	Ultra Series Conservative Allocation Fund, Class I, Subaccount	Ultra Series Conservative Allocation Fund, Class II, Subaccount	Ultra Series Diversified Income Fund, Class I, Subaccount
<b>Units outstanding at December 31, 2016</b>	5,101,403	2,096,639	5,446,256
Units issued	1,360,028	858,399	2,243,527
Units redeemed	(2,339,289)	(1,106,578)	(2,864,016)
<b>Units outstanding at December 31, 2017</b>	<b>4,122,142</b>	<b>1,848,460</b>	<b>4,825,767</b>
Units issued	1,236,834	640,908	1,910,962
Units redeemed	(1,912,615)	(1,033,793)	(2,509,519)
<b>Units outstanding at December 31, 2018</b>	<b>3,446,361</b>	<b>1,455,575</b>	<b>4,227,210</b>

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding (continued)**

	Ultra Series Diversified Income Fund, Class II, Subaccount	Ultra Series Foundation Account, Class I, Subaccount	Ultra Series Foundation Account, Class II, Subaccount
<b>Units outstanding at December 31, 2016</b>	2,281,872	30,384	2,057,959
Units issued	371,708	5,868	136,109
Units redeemed	(609,404)	(9,506)	(402,341)
<b>Units outstanding at December 31, 2017</b>	<b>2,044,176</b>	<b>26,746</b>	<b>1,791,727</b>
Units issued	198,227	-	30,816
Units redeemed	(540,727)	(658)	(335,309)
<b>Units outstanding at December 31, 2018</b>	<b>1,701,676</b>	<b>26,088</b>	<b>1,487,234</b>

	Ultra Series High Income Fund, Class I, Subaccount	Ultra Series High Income Fund, Class II, Subaccount	Ultra Series International Stock Fund, Class I, Subaccount
<b>Units outstanding at December 31, 2016</b>	1,056,897	334,433	1,525,877
Units issued	805,077	410,978	1,300,974
Units redeemed	(926,839)	(410,068)	(1,532,489)
<b>Units outstanding at December 31, 2017</b>	<b>935,135</b>	<b>335,343</b>	<b>1,294,362</b>
Units issued	750,598	326,114	1,155,652
Units redeemed	(857,452)	(369,784)	(1,294,009)
<b>Units outstanding at December 31, 2018</b>	<b>828,281</b>	<b>291,673</b>	<b>1,156,005</b>

	Ultra Series International Stock Fund, Class II, Subaccount	Ultra Series Large Cap Growth Fund, Class I, Subaccount	Ultra Series Large Cap Growth Fund, Class II, Subaccount
<b>Units outstanding at December 31, 2016</b>	870,181	3,108,558	1,085,183
Units issued	907,245	1,857,192	1,048,057
Units redeemed	(1,027,026)	(2,283,278)	(1,242,356)
<b>Units outstanding at December 31, 2017</b>	<b>750,400</b>	<b>2,682,472</b>	<b>890,884</b>
Units issued	706,978	1,571,174	784,187
Units redeemed	(842,649)	(1,954,394)	(988,949)
<b>Units outstanding at December 31, 2018</b>	<b>614,729</b>	<b>2,299,252</b>	<b>686,122</b>

	Ultra Series Large Cap Value Fund, Class I, Subaccount	Ultra Series Large Cap Value Fund, Class II, Subaccount	Ultra Series Mid Cap Fund, Class I, Subaccount
<b>Units outstanding at December 31, 2016</b>	4,369,351	202,247	2,498,144
Units issued	2,480,601	263,832	1,509,946
Units redeemed	(3,041,849)	(255,558)	(1,903,868)
<b>Units outstanding at December 31, 2017</b>	<b>3,808,103</b>	<b>210,521</b>	<b>2,104,222</b>
Units issued	2,159,432	179,133	1,230,869
Units redeemed	(2,636,779)	(220,178)	(1,510,711)
<b>Units outstanding at December 31, 2018</b>	<b>3,330,756</b>	<b>169,476</b>	<b>1,824,380</b>

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(6) Changes in Units Outstanding (continued)**

	Ultra Series Mid Cap Fund, Class II, Subaccount	Ultra Series Moderate Allocation Fund, Class I, Subaccount	Ultra Series Moderate Allocation Fund, Class II, Subaccount
<b>Units outstanding at December 31, 2016</b>	430,049	8,436,352	1,618,267
Units issued	429,485	1,578,802	523,805
Units redeemed	(502,698)	(2,767,579)	(765,413)
<b>Units outstanding at December 31, 2017</b>	<b>356,836</b>	<b>7,247,575</b>	<b>1,376,659</b>
Units issued	307,288	1,123,294	431,314
Units redeemed	(386,703)	(2,146,942)	(698,119)
<b>Units outstanding at December 31, 2018</b>	<b>277,421</b>	<b>6,223,927</b>	<b>1,109,854</b>

	Vanguard VIF Money Market Portfolio, Subaccount
<b>Units outstanding at December 31, 2016</b>	1,554,591
Units issued	4,203,540
Units redeemed	(2,671,304)
<b>Units outstanding at December 31, 2017</b>	<b>3,086,827</b>
Units issued	2,256,133
Units redeemed	(2,908,087)
<b>Units outstanding at December 31, 2018</b>	<b>2,434,873</b>

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights**

The table below provides financial highlights for each subaccount for the year ended December 31, 2018 and the four preceeding years ended December 31. In certain instances, fewer years are presented because the subaccount was not available for the entire five-year period. The unit value, the expense ratio and the total returns are presented for the product with the lowest and highest expense ratios. In addition, the lowest unit value and total return can exceed the highest unit value and total return due to timing of when amounts were actually invested in the respective contract by contract owners.

As of						For the period ended				
						(1)	(2)	(3)		
						Investment	Expense Ratio	Total Return for		
						Income Ratio	Lowest to	Lowest to Highest		
							Highest	Expense Ratio		
Units	Unit Value for			Net						
(000's)	Lowest to Highest			Assets						
	Expense Ratio			(000's)						
BlackRock Global Allocation V.I. Fund, Class III, Subaccount										
12/31/2018	1,276	\$ 13.03	to \$ 12.71	\$ 16,619		0.76%	1.30% to 1.80%	-8.75%	to	-9.08%
12/31/2017	1,780	14.28	to 13.98	25,405		1.20%	1.30% to 1.80%	12.18%	to	11.57%
12/31/2016	2,103	12.73	to 12.53	26,757		1.09%	1.30% to 1.80%	2.50%	to	2.12%
12/31/2015	2,870	12.42	to 12.27	35,649		1.00%	1.30% to 1.80%	-2.28%	to	-2.77%
12/31/2014	3,236	12.71	to 12.62	41,146		2.17%	1.30% to 1.80%	0.71%	to	0.16%
Franklin Income VIP Fund, Class 4, Subaccount										
12/31/2018	772	\$ 14.23	to \$ 14.45	\$ 10,792		4.63%	1.15% to 1.80%	-5.45%	to	-6.17%
12/31/2017	1,002	15.05	to 15.40	14,872		3.94%	1.15% to 1.80%	8.27%	to	7.62%
12/31/2016	1,250	13.90	to 14.31	17,139		4.78%	1.15% to 1.80%	12.64%	to	11.80%
12/31/2015	1,428	12.34	to 12.80	17,418		4.61%	1.15% to 1.80%	-8.32%	to	-8.77%
12/31/2014	1,958	13.46	to 14.03	26,128		4.75%	1.15% to 1.80%	3.22%	to	2.63%
Franklin Mutual Global Discovery VIP Fund, Class 4, Subaccount										
12/31/2018	474	\$ 13.89	to \$ 14.25	\$ 6,452		2.07%	1.15% to 1.80%	-12.31%	to	-12.90%
12/31/2017	577	15.84	to 16.36	8,974		1.54%	1.15% to 1.80%	7.24%	to	6.58%
12/31/2016	749	14.77	to 15.35	10,889		1.47%	1.15% to 1.80%	10.72%	to	10.11%
12/31/2015	804	13.34	to 13.94	10,578		2.56%	1.15% to 1.80%	-4.85%	to	-5.43%
12/31/2014	883	14.02	to 14.74	12,245		1.94%	1.15% to 1.80%	4.47%	to	3.66%
Templeton Developing Markets VIP Fund, Class 2, Subaccount										
12/31/2018	49	\$ 13.93	to (a)	\$ 679		0.87%	1.40%	-16.89%	to	(a)
12/31/2017	55	16.76	to (a)	914		0.98%	1.40%	38.51%	to	(a)
12/31/2016	59	12.10	to (a)	709		0.80%	1.40%	15.68%	to	(a)
12/31/2015	71	10.46	to (a)	747		2.08%	1.40%	-20.64%	to	(a)
12/31/2014	79	13.18	to (a)	1,038		1.48%	1.40%	-9.73%	to	(a)
Invesco V.I. Global Real Estate Fund, Series II Shares, Subaccount										
12/31/2018	524	\$ 11.11	to \$ 12.46	\$5,593		3.53%	1.15% to 1.80%	-7.34%	to	-7.98%
12/31/2017	643	11.99	to 13.54	7,429		2.97%	1.15% to 1.80%	11.33%	to	10.71%
12/31/2016	777	10.77	to 12.23	8,052		1.35%	1.15% to 1.80%	0.56%	to	0.00%
12/31/2015	877	10.71	to 12.23	9,058		3.25%	1.15% to 1.80%	-2.81%	to	-3.47%
12/31/2014	993	11.02	to 12.67	10,584		1.41%	1.15% to 1.80%	13.03%	to	12.32%

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended				
		Unit Value for		Net		(1)	(2)	(3)		
Units		Lowest to Highest		Assets		Investment	Expense Ratio	Total Return for		
(000's)		Expense Ratio		(000's)		Income Ratio	Lowest to Highest	Lowest to Highest Expense Ratio		
Invesco V.I. Government Securities Fund, Series II Shares, Subaccount										
12/31/2018	1,323	\$ 10.37	to \$ 9.85	\$13,681	1.90%	1.30% to 1.80%	-1.14%	to	-1.40%	
12/31/2017	1,565	10.49	to 9.99	16,374	1.84%	1.30% to 1.80%	0.38%	to	0.00%	
12/31/2016	1,712	10.45	to 9.99	17,852	1.74%	1.30% to 1.80%	-0.29%	to	-0.70%	
12/31/2015	1,924	10.48	to 10.06	20,126	1.89%	1.30% to 1.80%	-1.23%	to	-1.76%	
12/31/2014	2,192	10.61	to 10.24	23,219	2.93%	1.30% to 1.80%	2.51%	to	1.89%	
Invesco V.I. Growth and Income, Series II Shares, Subaccount										
12/31/2018	1,750	\$ 16.22	to \$ 16.73	\$27,967	1.70%	1.15% to 1.80%	-14.54%	to	-15.12%	
12/31/2017	2,197	18.98	to 19.71	41,186	1.21%	1.15% to 1.80%	11.19%	to	12.05%	
12/31/2016	3,132	17.07	to 17.59	52,155	0.88%	1.15% to 1.80%	17.97%	to	17.27%	
12/31/2015	3,551	14.47	to 15.00	50,097	2.56%	1.15% to 1.80%	-4.30%	to	-5.00%	
12/31/2014	4,018	15.12	to 15.79	59,405	1.46%	1.15% to 1.80%	8.62%	to	8.00%	
Invesco V.I. Mid Cap Growth, Series II Shares, Subaccount										
12/31/2018	401	\$ 16.18	to \$ 16.69	\$6,497	0.00%	1.15% to 1.80%	-6.96%	to	-7.59%	
12/31/2017	596	17.39	to 18.06	10,404	0.00%	1.15% to 1.80%	17.03%	to	20.00%	
12/31/2016	798	14.86	to 15.05	11,593	0.00%	1.15% to 1.80%	-0.54%	to	-1.25%	
12/31/2015	811	14.94	to 15.24	11,876	0.00%	1.15% to 1.80%	-0.13%	to	-0.72%	
12/31/2014	950	14.96	to 15.35	13,960	0.00%	1.15% to 1.80%	6.63%	to	5.79%	
MFS® Strategic Income Portfolio, Initial Class, Subaccount										
12/31/2018	26	\$ 22.92	to (a)	\$ 601	3.96%	1.40%	-3.41%	to	(a)	
12/31/2017	28	23.73	to (a)	670	4.57%	1.40%	4.77%	to	(a)	
12/31/2016	31	22.65	to (a)	712	3.03%	1.40%	6.69%	to	(a)	
12/31/2015	36	21.23	to (a)	769	5.64%	1.40%	-3.19%	to	(a)	
12/31/2014	41	21.93	to (a)	892	3.17%	1.40%	1.81%	to	(a)	
Oppenheimer Global Strategic Income Fund/VA, Non-Service Shares, Subaccount										
12/31/2018	78	\$ 4.58	to (a)	\$ 356	4.98%	1.40%	-5.95%	to	(a)	
12/31/2017	88	4.87	to (a)	426	2.31%	1.40%	4.06%	to	(a)	
12/31/2016	101	4.68	to (a)	471	4.84%	1.40%	4.93%	to	(a)	
12/31/2015	116	4.46	to (a)	517	5.95%	1.40%	-3.67%	to	(a)	
12/31/2014	135	4.63	to (a)	625	4.30%	0.014	1.31%	to	(a)	
Oppenheimer International Growth Fund/VA, Service Shares, Subaccount										
12/31/2018	1,206	\$ 11.28	to \$ 11.35	\$ 13,165	0.59%	1.15% to 1.80%	-20.51%	to	-21.13%	
12/31/2017	1,534	14.19	to 14.39	21,138	1.14%	1.15% to 1.80%	24.91%	to	24.16%	
12/31/2016	1,980	11.36	to 11.59	21,867	0.83%	1.15% to 1.80%	-3.73%	to	-4.37%	
12/31/2015	2,141	11.80	to 12.12	24,654	0.92%	1.15% to 1.80%	1.90%	to	1.42%	
12/31/2014	2,333	11.58	to 11.95	26,393	0.94%	1.15% to 1.80%	-8.24%	to	-8.85%	



**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended			
Units (000's)		Unit Value for Lowest to Highest Expense Ratio		Net Assets (000's)		(1) Investment Income Ratio	(2) Expense Ratio Lowest to Highest	(3) Total Return for Lowest to Highest Expense Ratio	
Oppenheimer Main Street Small Cap Fund®/VA, Service Shares, Subaccount									
12/31/2018	371	\$ 19.73	to \$ 19.37	\$ 7,169	0.06%	1.15% to 1.80%	-11.56%	to	-12.15%
12/31/2017	511	22.31	to 22.05	11,176	0.63%	1.15% to 1.80%	12.56%	to	11.93%
12/31/2016	701	19.82	to 19.70	13,647	0.26%	1.15% to 1.80%	16.45%	to	15.61%
12/31/2015	751	17.02	to 17.04	12,570	0.67%	1.15% to 1.80%	-7.20%	to	-7.79%
12/31/2014	931	18.34	to 18.48	16,834	0.64%	1.15% to 1.80%	10.28%	to	9.61%
Oppenheimer Main Street Fund®/VA, Service Shares, Subaccount									
12/31/2018	874	\$ 17.51	to \$ 18.02	\$ 15,006	0.90%	1.15% to 1.80%	-9.09%	to	-9.72%
12/31/2017	1,094	19.26	to 19.96	20,713	1.00%	1.15% to 1.80%	15.26%	to	14.58%
12/31/2016	1,530	16.71	to 17.42	25,151	0.87%	1.15% to 1.80%	9.93%	to	9.42%
12/31/2015	1,706	15.20	to 15.92	25,529	0.66%	1.15% to 1.80%	1.88%	to	1.27%
12/31/2014	1,960	14.92	to 15.72	28,831	0.58%	1.15% to 1.80%	9.22%	to	8.26%
PIMCO Commodity - RealReturn® Strategy Portfolio, Advisor Class, Subaccount									
12/31/2018	1,831	\$ 3.70	to \$ 3.26	\$ 6,704	1.98%	1.15% to 1.80%	-14.94%	to	-15.32%
12/31/2017	2,173	4.35	to 3.85	9,367	11.02%	1.15% to 1.80%	1.16%	to	-0.26%
12/31/2016	2,649	4.30	to 3.86	11,331	1.00%	1.15% to 1.80%	14.06%	to	12.87%
12/31/2015	2,670	3.77	to 3.42	10,063	4.14%	1.15% to 1.80%	-26.51%	to	-27.23%
12/31/2014	2,146	5.13	to 4.70	11,034	0.26%	1.15% to 1.80%	-19.59%	to	-20.20%
PIMCO Global Bond Opportunities Portfolio (Unhedged), Advisor Class, Subaccount									
12/31/2018	1,346	\$ 11.98	to \$ 11.22	\$ 15,782	6.10%	1.15% to 1.80%	-5.37%	to	-5.87%
12/31/2017	1,618	12.66	to 11.92	20,091	1.81%	1.15% to 1.80%	7.29%	to	6.43%
12/31/2016	1,997	11.80	to 11.20	23,127	1.41%	1.15% to 1.80%	2.88%	to	2.10%
12/31/2015	2,380	11.47	to 10.97	26,874	1.74%	1.15% to 1.80%	-5.21%	to	-5.84%
12/31/2014	2,548	12.10	to 11.65	30,411	2.37%	1.15% to 1.80%	0.92%	to	0.43%
PIMCO Total Return Portfolio, Advisor Class, Subaccount									
12/31/2018	2,503	\$ 13.56	to \$ 12.95	\$ 33,454	2.43%	1.15% to 1.80%	-1.88%	to	-2.48%
12/31/2017	2,943	13.82	to 13.28	40,118	1.92%	1.15% to 1.80%	3.75%	to	2.95%
12/31/2016	3,716	13.32	to 12.90	48,951	1.99%	1.15% to 1.80%	1.45%	to	0.70%
12/31/2015	4,289	13.13	to 12.81	55,788	4.74%	1.15% to 1.80%	-0.83%	to	-1.39%
12/31/2014	4,928	13.24	to 12.99	64,693	2.08%	1.15% to 1.80%	2.87%	to	2.20%
T. Rowe Price International Stock Portfolio, Subaccount									
12/31/2018	191	\$ 20.35	to (a)	\$ 3,894	1.27%	1.40%	-15.31%	to	(a)
12/31/2017	219	24.03	to (a)	5,254	1.05%	1.40%	26.08%	to	(a)
12/31/2016	251	19.06	to (a)	4,773	1.02%	1.40%	0.74%	to	(a)
12/31/2015	285	18.92	to (a)	5,397	0.88%	1.40%	-2.27%	to	(a)
12/31/2014	323	19.36	to (a)	6,254	0.99%	1.40%	-2.57%	to	(a)

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended				
Units (000's)		Unit Value for Lowest to Highest Expense Ratio		Net Assets (000's)		(1) Investment Income Ratio	(2) Expense Ratio Lowest to Highest	(3) Total Return for Lowest to Highest Expense Ratio		
Ultra Series Aggressive Allocation Fund, Class I, Subaccount										
12/31/2018	599	\$ 13.07	to \$ 13.70	\$ 8,050		1.81%	1.15% to 1.80%	-7.24%	to	-7.87%
12/31/2017	645	14.09	to 14.87	9,385		1.72%	1.15% to 1.80%	17.12%	to	16.44%
12/31/2016	713	12.03	to 12.77	8,870		1.75%	1.15% to 1.80%	7.51%	to	6.77%
12/31/2015	818	11.19	to 11.96	9,466		1.43%	1.15% to 1.80%	-2.27%	to	-3.00%
12/31/2014	1,011	11.45	to 12.33	11,996		1.73%	1.15% to 1.80%	6.12%	to	5.66%
Ultra Series Aggressive Allocation Fund, Class II, Subaccount										
12/31/2018	74	\$ 20.55	to (b)	\$ 1,527		1.25%	1.30%	-7.64%	to	(b)
12/31/2017	102	22.25	to (b)	2,267		1.52%	1.30%	16.68%	to	(b)
12/31/2016	107	19.07	to (b)	2,032		1.76%	1.30%	7.26%	to	(b)
12/31/2015	95	17.78	to (b)	1,681		1.28%	1.30%	-2.68%	to	(b)
12/31/2014	99	18.27	to (b)	1,810		1.65%	1.30%	5.91%	to	(b)
Ultra Series Core Bond Fund, Class I, Subaccount										
12/31/2018	3,475	\$ 16.24	to \$ 11.44	\$ 51,077		2.98%	1.15% to 1.80%	-1.69%	to	-2.47%
12/31/2017	4,004	16.52	to 11.73	59,974		2.79%	1.15% to 1.80%	1.91%	to	1.38%
12/31/2016	4,614	16.21	to 11.57	68,135		2.81%	1.15% to 1.80%	1.57%	to	0.78%
12/31/2015	5,546	15.96	to 11.48	79,924		2.92%	1.15% to 1.80%	-1.18%	to	-1.88%
12/31/2014	6,636	16.15	to 11.70	96,654		2.93%	1.15% to 1.80%	3.73%	to	3.27%
Ultra Series Core Bond Fund, Class II, Subaccount										
12/31/2018	1,214	\$ 11.47	to \$ 10.86	\$ 13,827		2.81%	1.30% to 1.80%	-2.13%	to	-2.60%
12/31/2017	1,348	11.72	to 11.15	15,694		2.66%	1.30% to 1.80%	1.47%	to	1.00%
12/31/2016	1,395	11.55	to 11.04	16,058		2.48%	1.30% to 1.80%	0.96%	to	0.55%
12/31/2015	1,783	11.44	to 10.98	20,328		2.82%	1.30% to 1.80%	-1.63%	to	-2.14%
12/31/2014	1,951	11.63	to 11.22	22,638		2.94%	1.30% to 1.80%	3.65%	to	3.03%
Ultra Series Conservative Allocation Fund, Class I, Subaccount										
12/31/2018	3,446	\$ 13.27	to \$ 12.35	\$ 46,021		2.26%	1.15% to 1.80%	-3.56%	to	-4.26%
12/31/2017	4,122	13.76	to 12.90	57,227		1.96%	1.15% to 1.80%	9.03%	to	8.31%
12/31/2016	5,101	12.62	to 11.91	65,088		1.84%	1.15% to 1.80%	4.21%	to	3.39%
12/31/2015	6,002	12.11	to 11.52	73,586		1.73%	1.15% to 1.80%	-1.94%	to	-2.46%
12/31/2014	7,266	12.35	to 11.81	90,931		2.07%	1.15% to 1.80%	4.93%	to	3.96%
Ultra Series Conservative Allocation Fund, Class II, Subaccount										
12/31/2018	1,456	\$ 15.51	to \$ 14.26	\$ 22,527		1.90%	1.30% to 1.80%	-3.96%	to	-4.49%
12/31/2017	1,848	16.15	to 14.93	29,771		1.76%	1.30% to 1.80%	8.53%	to	8.03%
12/31/2016	2,097	14.88	to 13.82	31,116		1.55%	1.30% to 1.80%	3.77%	to	3.44%
12/31/2015	2,356	14.34	to 13.36	33,705		1.54%	1.30% to 1.80%	-2.32%	to	-2.84%
12/31/2014	2,583	14.68	to 13.75	37,844		1.83%	1.30% to 1.80%	4.56%	to	3.93%

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended				
						(1)	(2)	(3)		
						Investment	Expense Ratio	Total Return for		
						Income Ratio	Lowest to	Lowest to Highest		
							Highest	Expense Ratio		
Units	Unit Value for				Net Assets					
(000's)	Lowest to Highest				(000's)					
	Expense Ratio									
Ultra Series Diversified Income Fund, Class I, Subaccount										
12/31/2018	4,227	\$ 19.78	to	\$ 16.27	\$ 97,863	2.28%	1.15% to 1.80%	-1.93%	to	-2.57%
12/31/2017	4,826	20.17	to	16.70	114,362	2.16%	1.15% to 1.80%	12.18%	to	11.41%
12/31/2016	5,446	17.98	to	14.99	115,562	2.30%	1.15% to 1.80%	7.66%	to	6.92%
12/31/2015	6,576	16.70	to	14.02	128,969	2.35%	1.15% to 1.80%	-1.01%	to	-1.75%
12/31/2014	7,781	16.87	to	14.27	154,938	2.28%	1.15% to 1.80%	5.97%	to	5.24%
Ultra Series Diversified Income Fund, Class II, Subaccount										
12/31/2018	1,702	\$ 19.44	to	\$ 18.58	\$ 32,925	2.05%	1.30% to 1.80%	-2.31%	to	-2.82%
12/31/2017	2,044	19.90	to	19.12	40,526	2.02%	1.30% to 1.80%	11.61%	to	10.97%
12/31/2016	2,282	17.83	to	17.23	40,548	2.25%	1.30% to 1.80%	7.28%	to	6.69%
12/31/2015	2,409	16.62	to	16.15	39,894	2.24%	1.30% to 1.80%	-1.42%	to	-1.94%
12/31/2014	2,664	16.86	to	16.47	44,772	2.19%	1.30% to 1.80%	5.51%	to	4.97%
Ultra Series Foundation Account, Class I, Subaccount										
12/31/2018	26	\$ 10.77	to	(a)	\$ 281	3.16%	1.30%	-1.91%	to	(a)
12/31/2017	27	10.98	to	(a)	294	2.85%	1.30%	1.76%	to	(a)
12/31/2016	30	10.79	to	(a)	328	3.02%	1.30%	1.41%	to	(a)
12/31/2015	33	10.64	to	(a)	354	3.18%	1.30%	-1.48%	to	(a)
12/31/2014	34	10.80	to	(a)	364	0.63%	1.30%	3.85%	to	(a)
Ultra Series Foundation Account, Class II, Subaccount										
12/31/2018	1,487	\$ 10.70	to	\$ 10.23	\$ 15,886	2.75%	1.30% to 1.80%	-2.10%	to	-2.57%
12/31/2017	1,792	10.93	to	10.50	19,558	2.51%	1.30% to 1.80%	1.58%	to	1.16%
12/31/2016	2,058	10.76	to	10.38	22,107	2.69%	1.30% to 1.80%	0.94%	to	0.48%
12/31/2015	2,239	10.66	to	10.33	23,823	2.95%	1.30% to 1.80%	-1.75%	to	-2.09%
12/31/2014	2,265	10.85	to	10.55	24,525	2.96%	1.30% to 1.80%	3.63%	to	2.93%
Ultra Series High Income Fund, Class I, Subaccount										
12/31/2018	828	\$ 23.13	to	\$ 14.85	\$ 16,539	5.13%	1.15% to 1.80%	-4.34%	to	-4.93%
12/31/2017	935	24.18	to	15.62	19,541	4.70%	1.15% to 1.80%	5.18%	to	4.27%
12/31/2016	1,057	22.99	to	14.98	20,991	4.92%	1.15% to 1.80%	10.80%	to	10.23%
12/31/2015	1,287	20.75	to	13.59	22,924	5.22%	1.15% to 1.80%	-3.58%	to	-4.30%
12/31/2014	1,592	21.52	to	14.20	29,284	5.61%	1.15% to 1.80%	0.56%	to	-0.14%
Ultra Series High Income Fund, Class II, Subaccount										
12/31/2018	292	\$ 15.96	to	\$ 14.82	\$ 4,605	4.82%	1.30% to 1.80%	-4.66%	to	-5.24%
12/31/2017	335	16.74	to	15.64	5,562	4.63%	1.30% to 1.80%	4.76%	to	4.20%
12/31/2016	334	15.98	to	15.01	5,314	4.60%	1.30% to 1.80%	10.44%	to	9.88%
12/31/2015	413	14.47	to	13.66	5,943	5.26%	1.30% to 1.80%	-3.98%	to	-4.41%
12/31/2014	446	15.07	to	14.29	6,685	5.89%	1.30% to 1.80%	0.13%	to	-0.42%

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended				
Units (000's)		Unit Value for Lowest to Highest Expense Ratio			Net Assets (000's)	(1) Investment Income Ratio	(2) Expense Ratio Lowest to Highest	(3) Total Return for Lowest to Highest Expense Ratio		
Ultra Series International Stock Fund, Class I, Subaccount										
12/31/2018	1,156	\$ 16.18	to	\$ 8.40	\$ 18,896	1.57%	1.15% to 1.80%	-14.66%	to	-15.15%
12/31/2017	1,294	18.96	to	9.90	24,795	1.22%	1.15% to 1.80%	21.07%	to	20.58%
12/31/2016	1,526	15.66	to	8.21	24,036	1.69%	1.15% to 1.80%	-3.99%	to	-4.65%
12/31/2015	1,801	16.31	to	8.61	29,461	1.87%	1.15% to 1.80%	-4.62%	to	-5.07%
12/31/2014	2,077	17.10	to	9.07	35,485	3.46%	1.15% to 1.80%	-7.82%	to	-8.57%
Ultra Series International Stock Fund, Class II, Subaccount										
12/31/2018	615	\$ 15.27	to	\$ 13.34	\$ 9,219	1.35%	1.30% to 1.80%	-14.98%	to	-15.46%
12/31/2017	750	17.96	to	15.78	13,257	1.05%	1.30% to 1.80%	20.70%	to	20.09%
12/31/2016	870	14.88	to	13.14	12,796	1.59%	1.30% to 1.80%	-4.43%	to	-4.78%
12/31/2015	951	15.57	to	13.80	14,641	1.68%	1.30% to 1.80%	-5.00%	to	-5.41%
12/31/2014	998	16.39	to	14.59	16,174	3.31%	1.30% to 1.80%	-8.13%	to	-8.76%
Ultra Series Large Cap Growth Fund, Class I, Subaccount										
12/31/2018	2,299	\$ 17.36	to	\$ 16.60	\$ 61,428	0.67%	1.15% to 1.80%	-1.36%	to	-2.01%
12/31/2017	2,682	17.60	to	16.94	72,371	0.74%	1.15% to 1.80%	20.96%	to	20.14%
12/31/2016	3,109	14.55	to	14.10	69,772	0.80%	1.15% to 1.80%	4.53%	to	3.75%
12/31/2015	3,697	13.92	to	13.59	78,727	1.07%	1.15% to 1.80%	2.13%	to	1.34%
12/31/2014	4,400	13.63	to	13.41	90,923	0.63%	1.15% to 1.80%	10.90%	to	10.19%
Ultra Series Large Cap Growth Fund, Class II, Subaccount										
12/31/2018	686	\$ 26.13	to	\$ 23.88	\$ 17,704	0.51%	1.30% to 1.80%	-1.80%	to	-2.33%
12/31/2017	891	26.61	to	24.45	23,445	0.58%	1.30% to 1.80%	20.41%	to	19.74%
12/31/2016	1,085	22.10	to	20.42	23,774	0.64%	1.30% to 1.80%	4.10%	to	3.60%
12/31/2015	1,318	21.23	to	19.71	27,749	0.90%	1.30% to 1.80%	1.77%	to	1.28%
12/31/2014	1,555	20.86	to	19.46	32,169	0.49%	1.30% to 1.80%	10.37%	to	9.82%
Ultra Series Large Cap Value Fund, Class I, Subaccount										
12/31/2018	3,331	\$ 16.02	to	\$ 12.57	\$ 78,335	1.48%	1.15% to 1.80%	-13.55%	to	-14.14%
12/31/2017	3,808	18.53	to	14.64	104,030	2.30%	1.15% to 1.80%	14.88%	to	14.11%
12/31/2016	4,369	16.13	to	12.83	104,192	1.45%	1.15% to 1.80%	11.70%	to	10.89%
12/31/2015	5,211	14.44	to	11.57	110,598	1.16%	1.15% to 1.80%	-3.73%	to	-4.38%
12/31/2014	6,208	15.00	to	12.10	135,929	1.26%	1.15% to 1.80%	11.11%	to	10.20%
Ultra Series Large Cap Value Fund, Class II, Subaccount										
12/31/2018	169	\$ 23.10	to	\$ 21.22	\$ 3,829	1.28%	1.30% to 1.80%	-13.97%	to	-14.30%
12/31/2017	211	26.85	to	24.76	5,539	2.22%	1.30% to 1.80%	14.50%	to	13.89%
12/31/2016	202	23.45	to	21.74	4,709	1.31%	1.30% to 1.80%	11.30%	to	10.64%
12/31/2015	263	21.07	to	19.65	5,509	1.00%	1.30% to 1.80%	-4.23%	to	-4.66%
12/31/2014	306	22.00	to	20.61	6,700	1.13%	1.30% to 1.80%	10.72%	to	10.21%

**CMFG Variable Annuity Account**  
**Notes to Financial Statements**

**(7) Financial Highlights (continued)**

As of						For the period ended				
Units (000's)		Unit Value for Lowest to Highest Expense Ratio		Net Assets (000's)		(1)	(2)	(3)		
						Investment Income Ratio	Expense Ratio Lowest to Highest	Total Return for Lowest to Highest Expense Ratio		
Ultra Series Mid Cap Fund, Class I, Subaccount										
12/31/2018	1,824	\$ 32.15	to \$ 16.93	\$ 58,237		0.00%	1.15% to 1.80%	-2.63%	to	-3.15%
12/31/2017	2,104	33.02	to 17.48	68,776		0.00%	1.15% to 1.80%	14.37%	to	13.65%
12/31/2016	2,498	28.87	to 15.38	71,047		0.02%	1.15% to 1.80%	11.55%	to	10.81%
12/31/2015	2,975	25.88	to 13.88	75,149		0.07%	1.15% to 1.80%	-0.15%	to	-0.64%
12/31/2014	3,628	25.92	to 13.97	90,730		0.04%	1.15% to 1.80%	8.59%	to	7.79%
Ultra Series Mid Cap Fund, Class II, Subaccount										
12/31/2018	277	\$ 28.81	to \$ 27.07	\$ 7,921		0.00%	1.30% to 1.80%	-2.96%	to	-3.49%
12/31/2017	357	29.69	to 28.05	10,509		0.00%	1.30% to 1.80%	13.97%	to	13.38%
12/31/2016	430	26.05	to 24.74	11,142		0.00%	1.30% to 1.80%	11.13%	to	10.55%
12/31/2015	545	23.44	to 22.38	12,710		0.00%	1.30% to 1.80%	-0.59%	to	-1.02%
12/31/2014	642	23.58	to 22.61	15,067		0.00%	1.30% to 1.80%	8.17%	to	7.56%
Ultra Series Moderate Allocation Fund, Class I, Subaccount										
12/31/2018	6,224	\$ 13.37	to \$ 11.93	\$ 85,176		1.04%	1.15% to 1.80%	-5.45%	to	-6.06%
12/31/2017	7,248	14.14	to 12.70	105,079		1.92%	1.15% to 1.80%	13.57%	to	12.59%
12/31/2016	8,436	12.45	to 11.28	108,142		1.84%	1.15% to 1.80%	6.14%	to	5.42%
12/31/2015	9,773	11.73	to 10.70	118,229		1.58%	1.15% to 1.80%	-1.92%	to	-2.64%
12/31/2014	11,655	11.96	to 10.99	144,208		1.94%	1.15% to 1.80%	5.56%	to	5.07%
Ultra Series Moderate Allocation Fund, Class II, Subaccount										
12/31/2018	1,110	\$ 18.38	to \$ 17.08	\$ 20,302		0.78%	1.30% to 1.80%	-5.79%	to	-6.36%
12/31/2017	1,377	19.51	to 18.24	26,765		1.60%	1.30% to 1.80%	12.97%	to	12.45%
12/31/2016	1,618	17.27	to 16.22	27,870		1.52%	1.30% to 1.80%	5.69%	to	5.26%
12/31/2015	1,887	16.34	to 15.41	30,762		1.36%	1.30% to 1.80%	-2.56%	to	-2.90%
12/31/2014	2,041	16.77	to 15.87	34,147		1.74%	1.30% to 1.80%	5.34%	to	4.61%
Vanguard VIF Money Market Portfolio, Subaccount										
12/31/2018	2,435	\$ 10.01	to \$ 9.77	\$ 24,262		1.93%	1.15% to 1.80%	0.81%	to	0.10%
12/31/2017	3,087	9.93	to 9.76	30,548		1.04%	1.15% to 1.80%	0.00%	to	-1.11%
12/31/2016 <sup>(c)</sup>	3,109	9.93	to 9.87	15,405		48.00%	1.15% to 1.80%	-0.70%	to	-1.30%

## **CMFG Variable Annuity Account**

### **Notes to Financial Statements**

#### **(7) Financial Highlights (continued)**

- (1) The Investment Income Ratio represents dividends received by the subaccount, excluding capital gains distributions, divided by the daily average net assets for the period indicated. The recognition of investment income is determined by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.
  - (2) The Expense Ratio represents the annualized contract expenses of the respective contract of the Account, consisting primarily of mortality and expense risk charges, as defined in the Account Charges note. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.
  - (3) The Total Return represents the total return for the periods indicated, including changes in the value of the underlying fund and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. The total return is calculated for each period shown and, accordingly, is not annualized for periods less than one year. As the total return for each of the periods is presented as a range of lowest to highest percentages based on the product grouping representing the lowest and highest expense ratio amounts, some individual contract total returns are not within the ranges presented.
- (a) This subaccount is only available in the MEMBERS Variable Annuity product that offers one class and expense ratio, therefore a range of lowest to highest is not presented.
- (b) This subaccount is only available in the MEMBERS Variable Annuity III product that offers multiple classes and expense ratios, therefore a range of lowest to highest is presented if contract owners have invested in multiple classes for the respective subaccount.
- (c) For the period of February 15, 2016 to December 31, 2016 with a beginning unit value of \$10.00. Total return is based on the beginning unit value. The Subaccount commenced operations effective February 12, 2016.

#### **(8) Subsequent Events**

The Account evaluated subsequent events through the date the financial statements were issued. During this period, there were no significant subsequent events that required adjustment to or disclosure in the accompanying financial statements.



# MFS<sup>®</sup> Strategic Income Portfolio

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## MFS<sup>®</sup> Variable Insurance Trust II

Beginning on January 1, 2021, as permitted by regulations adopted by the U.S. Securities and Exchange Commission, the insurance company that offers your contract may determine that it will no longer send you paper copies of the fund's annual and semiannual shareholder reports unless you specifically request paper copies from the insurance company or from your financial intermediary. Instead, the shareholder reports will be made available on a Web site ([insurancefunds.mfs.com](http://insurancefunds.mfs.com) or other Web site of which you will be notified), and the insurance company will notify you by mail each time a report is posted and provide you with a Web site link to access the report. Instructions for requesting paper copies will be provided by your insurance company or financial intermediary.

If you already elected to receive shareholder reports by email, you will not be affected by this change and you need not take any action. If your insurance company or financial intermediary offers electronic delivery, you may elect to receive shareholder reports and other communications from the insurance company or financial intermediary by email by following the instructions provided by the insurance company or financial intermediary.

Beginning on January 1, 2019, you may elect to receive all future reports in paper free of charge from the insurance company or financial intermediary. You can inform the insurance company or financial intermediary that you wish to continue receiving paper copies of your shareholder reports by contacting your insurance company or financial intermediary. Your election to receive reports in paper will apply to all funds held in your account with your insurance company or financial intermediary.

# MFS® Strategic Income Portfolio

## CONTENTS

Letter from the Executive Chairman . . . . .	1
Portfolio composition . . . . .	2
Management review . . . . .	4
Performance summary . . . . .	5
Expense table . . . . .	6
Portfolio of investments . . . . .	7
Statement of assets and liabilities . . . . .	13
Statement of operations . . . . .	14
Statements of changes in net assets . . . . .	15
Financial highlights . . . . .	16
Notes to financial statements . . . . .	18
Report of independent registered public accounting firm . . . . .	28
Trustees and officers . . . . .	29
Board review of investment advisory agreement . . . . .	32
Proxy voting policies and information . . . . .	34
Quarterly portfolio disclosure . . . . .	34
Further information . . . . .	34
Information about fund contracts and legal claims . . . . .	34
MFS® privacy notice . . . . .	35

**The report is prepared for the general information of contract owners. It is authorized for distribution to prospective investors only when preceded or accompanied by a current prospectus.**

NOT FDIC INSURED • MAY LOSE VALUE • NO BANK OR CREDIT UNION GUARANTEE •  
NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY OR NCUA/NCUSIF



## LETTER FROM THE EXECUTIVE CHAIRMAN



Dear Contract Owners:

Higher interest rates, international trade friction, and geopolitical uncertainty surrounding issues such as Brexit have contributed to an uptick in market volatility in recent quarters — a departure from the low-volatility environment that prevailed for much of the past several years. Against this more challenging backdrop, equity markets in the United States outperformed most international markets on a relative basis in 2018, though broad market returns were modestly negative on an absolute basis. Global economic growth has become less synchronized over the past few quarters, with Europe, China, and some emerging markets having shown signs of significantly slowing growth. While U.S. growth has remained above average, the pace of that growth slowed in the second half of 2018.

Slowing global growth and tighter financial conditions have clouded the outlook for U.S. monetary policy, with the chairman of the U.S. Federal Reserve acknowledging that policy rates are close to levels that the Fed deems neutral for the U.S. economy. This suggests that the predictable pattern of quarterly rate increases is behind us. At the same time, markets must contend with a shift from years of quantitative easing toward a cycle of quantitative tightening now that the European Central Bank has halted asset purchases. U.S. tax reforms adopted in late 2017 have been welcomed by equity markets while emerging market economies have recently had to contend with tighter financial conditions as a result of firmer U.S. interest rates and a stronger dollar. With the Republicans losing control of the U.S. House of Representatives, further meaningful U.S. fiscal stimulus appears less likely over the remainder of this presidential term. A partial U.S. government shutdown, beginning in late 2018, also added to political uncertainty. Globally, inflation remains largely subdued thanks in part to falling oil prices, but tight labor markets and moderate global demand have investors on the lookout for its potential reappearance. Increased U.S. protectionism is also a growing concern, as investors fear trade disputes could dampen business sentiment, leading to even slower global growth. While there has been progress on this front — a NAFTA replacement has been agreed upon between the U.S., Mexico, and Canada; the free trade pact with Korea has been updated; and a negotiating framework with the European Union has been agreed upon — tensions over trade with China remain quite high, though the two sides have recently returned to the negotiating table.

As a global investment manager with nearly a century of expertise, MFS® firmly believes active risk management offers downside mitigation and may help improve investment outcomes. We built our active investment platform with this belief in mind. Our long-term perspective influences nearly every aspect of our business, ensuring our investment decisions align with the investing time horizons of our clients.

Respectfully,

A handwritten signature in black ink that reads "Robert J. Manning". The signature is written in a cursive, flowing style.

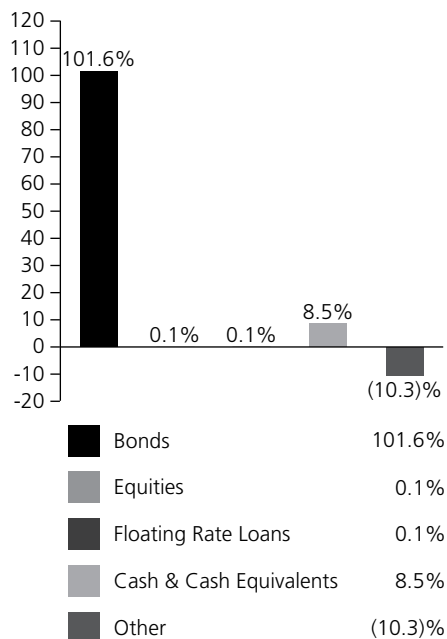
**Robert J. Manning**  
Executive Chairman  
MFS Investment Management

February 15, 2019

The opinions expressed in this letter are subject to change and may not be relied upon for investment advice. No forecasts can be guaranteed.

## PORTFOLIO COMPOSITION

### Portfolio structure (i)



### Composition including fixed income credit quality (a)(i)

AAA	11.3%
AA	4.0%
A	17.5%
BBB	22.9%
BB	9.8%
B	6.1%
CCC	1.2%
CC	0.3%
C	0.2%
U.S. Government	13.5%
Federal Agencies	0.9%
Not Rated	14.0%
Non-Fixed Income	0.1%
Cash & Cash Equivalents	8.5%
Other	(10.3)%

### Portfolio facts (i)

Average Duration (d)	5.8
Average Effective Maturity (m)	8.4 yrs.

### Fixed income sectors (i)

Investment Grade Corporates	29.4%
U.S. Treasury Securities	27.3%
Commercial Mortgage-Backed Securities	12.3%
High Yield Corporates	9.8%
Collateralized Debt Obligations	8.7%
Emerging Markets Bonds	6.6%
Asset-Backed Securities	5.0%
Municipal Bonds	0.7%
Mortgage-Backed Securities	0.6%
Non-U.S. Government Bonds	0.6%
Residential Mortgage-Backed Securities	0.3%
U.S. Government Agencies	0.3%
Floating Rate Loans	0.1%

- (a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody's, Fitch, and Standard & Poor's rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. U.S. Government includes securities issued by the U.S. Department of the Treasury. Federal Agencies includes rated and unrated U.S. Agency fixed-income securities, U.S. Agency mortgage-backed securities, and collateralized mortgage obligations of U.S. Agency mortgage-backed securities. Not Rated includes fixed income securities and fixed income derivatives, which have not been rated by any rating agency. Non-Fixed Income includes any equity securities (including convertible bonds and equity derivatives) and/or commodity-linked derivatives. The fund may or may not have held all of these instruments on this date. The fund is not rated by these agencies.
- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.
- (i) For purposes of this presentation, the components include the value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than value. The bond component will include any accrued interest amounts.

*Portfolio Composition – continued*

- (m) In determining each instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity.

Where the fund holds convertible bonds, they are treated as part of the equity portion of the portfolio.

The fund invests a portion of its assets in the MFS High Yield Pooled Portfolio. Percentages reflect exposure to the underlying holdings, including Cash & Cash Equivalents and Other, of the MFS High Yield Pooled Portfolio and not to the exposure from investing directly in the MFS High Yield Pooled Portfolio itself.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund's cash position and other assets and liabilities.

Other includes equivalent exposure from currency derivatives and/or any offsets to derivative positions and may be negative.

Percentages are based on net assets as of December 31, 2018.

The portfolio is actively managed and current holdings may be different.

## MANAGEMENT REVIEW

### Summary of Results

For the twelve months ended December 31, 2018, Initial Class shares of the MFS Strategic Income Portfolio ("fund") provided a total return of -1.99%, while Service Class shares of the fund provided a total return of -2.11%. These compare with a return of 0.01% over the same period for the fund's benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

### Market Environment

During the reporting period, the US Federal Reserve raised interest rates by 100 basis points, bringing the total number of rate hikes to nine since the central bank began to normalize monetary policy in late 2015. Economic growth rates in the US, Eurozone and Japan remained above trend, despite a slowing in global growth, particularly toward the end of the period. Inflation remained contained, particularly outside the US. Late in the period, the European Central Bank halted its asset purchase program but issued forward guidance that it does not expect to raise interest rates at least until after the summer of 2019. The Bank of England (once) and the Bank of Canada (three times) each raised rates during the period. The European political backdrop became a bit more volatile, late in the period, spurred by concerns over cohesion in the eurozone after the election of an anti-establishment, Eurosceptic coalition government in Italy and widespread protests over stagnant wage growth in France.

Bond yields rose in the US during most of the period, but remained low by historical standards and slipped from their highs, late in the period, as market volatility increased. Yields in many developed markets fell. Outside of emerging markets, where spreads and currencies came under pressure, credit spreads remained quite tight until the end of the period, when thinner liquidity, lower oil prices and concerns over high degrees of corporate leverage emerged. Growing concern over increasing global trade friction appeared to have weighed on business sentiment during the period's second half, especially outside the US. Tighter financial conditions from rising US rates and a strong dollar, combined with trade uncertainty, helped expose structural weaknesses in several emerging markets in the second half of the period.

Volatility increased, at the end of the period, amid signs of slowing global economic growth and increasing trade tensions, which prompted a market setback shortly after US markets set record highs in September. It was the second such equity market decline during the reporting period. The correction came despite a third consecutive quarter of strong growth in US earnings per share. Strong earnings growth, combined with the market decline, brought US equity valuations down from elevated levels, earlier in the period, to multiples more in line with long-term averages. While the US economy held up better than most, global economic growth became less synchronized during the period, with Europe and China showing signs of a slowdown and some emerging markets coming under stress.

### Factors Affecting Performance

Relative to the Bloomberg Barclays U.S. Aggregate Bond Index, the fund's greater exposure to the *industrials* sector, particularly within "BB" and "B" rated<sup>(r)</sup> bonds, and a lesser exposure to the *treasury* sector, detracted from performance. Additionally, the fund's out-of-benchmark exposure to "B" rated securities within the *sovereign* sector, and security selection in both the *commercial mortgage-backed securities (CMBS)* sector and in "AAA" rated bonds, further held back relative performance.

Conversely, the fund's out-of-benchmark exposure to the *collateralized mortgage obligation (CMO)* sector, and a greater exposure to "A" rated securities, contributed to relative performance. In addition, security selection in the *government-related agencies* sector and in "BBB" rated bonds further benefited relative results.

Respectfully,

Portfolio Manager(s)

Neeraj Arora, Philipp Burgener, David Cole, Alexander Mackey, Joshua Marston, Robert Persons, and Michael Skatrud

(r) Bonds rated "BBB", "Baa", or higher are considered investment grade; bonds rated "BB", "Ba", or below are considered non-investment grade.

The source for bond quality ratings is Moody's Investors Service, Standard & Poor's and Fitch, Inc. and are applied using the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated.

*Note to Shareholders: Effective March 1, 2018, Michael Skatrud became a Portfolio Manager of the Fund. Effective June 1, 2018, Ward Brown and Matt Ryan are no longer Portfolio Managers of the Fund. Effective June 1, 2018, Neeraj Arora became a Portfolio Manager of the Fund. Effective September 1, 2018, William Adams is no longer a Portfolio Manager of the Fund.*

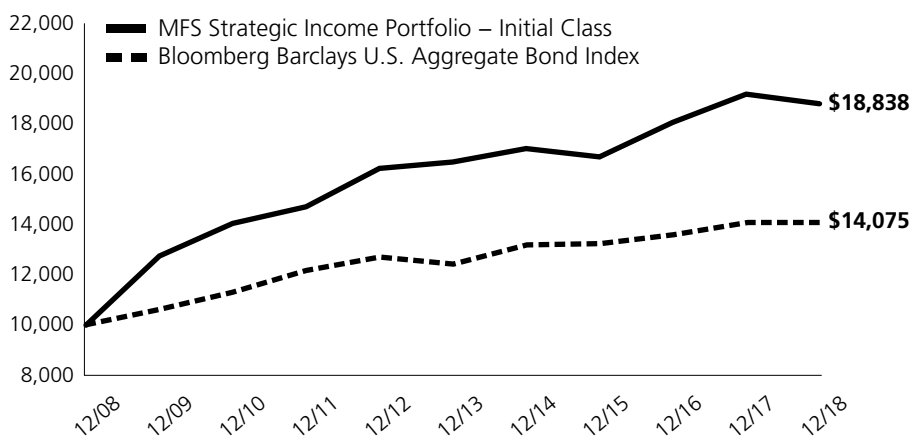
The views expressed in this report are those of the portfolio manager(s) only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

## PERFORMANCE SUMMARY THROUGH 12/31/18

The following chart illustrates the historical performance of the fund in comparison to its benchmark(s). Benchmarks are unmanaged and may not be invested in directly. Benchmark returns do not reflect any fees or expenses. The performance of other share classes will be greater than or less than that of the class depicted below. (See Notes to Performance Summary.)

**Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value fluctuate so your units, when sold, may be worth more or less than the original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a contract holder would pay on fund distributions or the redemption of contract units. The returns for the fund shown also do not reflect the deduction of expenses associated with variable products, such as mortality and expense risk charges, separate account charges, and sales charges imposed by the insurance company separate accounts. Such expenses would reduce the overall returns shown.**

### Growth of a Hypothetical \$10,000 Investment



### Total Returns through 12/31/18

#### Average annual total returns

Share Class	Class Inception Date	1-yr	5-yr	10-yr
Initial Class	5/06/98	(1.99)%	2.70%	6.54%
Service Class	8/24/01	(2.11)%	2.46%	6.28%

#### Comparative benchmark(s)

Bloomberg Barclays U.S. Aggregate Bond Index (f)	0.01%	2.52%	3.48%
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(f) Source: FactSet Research Systems Inc.

#### Benchmark Definition(s)

Bloomberg Barclays U.S. Aggregate Bond Index – a market capitalization-weighted index that measures the performance of the U.S. investment-grade, fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with at least one year to final maturity.

It is not possible to invest directly in an index.

#### Notes to Performance Summary

Average annual total return represents the average annual change in value for each share class for the periods presented.

Performance results reflect any applicable expense subsidies and waivers in effect during the periods shown. Without such subsidies and waivers the fund's performance results would be less favorable. Please see the prospectus and financial statements for complete details. All results are historical and assume the reinvestment of any dividends and capital gains distributions.

Performance results do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the financial highlights.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

## EXPENSE TABLE

### Fund Expenses Borne by the Contract Holders during the Period, July 1, 2018 through December 31, 2018

As a contract holder of the fund, you incur ongoing costs, including management fees; distribution and/or service (12b-1) fees; and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the fund and to compare these costs with the ongoing costs of investing in other mutual funds.

In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying MFS Pooled Portfolio in which the fund invests. MFS Pooled Portfolios are mutual funds advised by MFS that do not pay management fees to MFS but do incur investment and operating costs. If these transactional and indirect costs were included, your costs would have been higher.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2018 through December 31, 2018.

#### Actual Expenses

The first line for each share class in the following table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

#### Hypothetical Example for Comparison Purposes

The second line for each share class in the following table provides information about hypothetical account values and hypothetical expenses based on the fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight the fund's ongoing costs only and do not take into account the fees and expenses imposed under the variable contracts through which your investment in the fund is made. Therefore, the second line for each share class in the table is useful in comparing ongoing costs associated with an investment in vehicles (such as the fund) which fund benefits under variable annuity and variable life insurance contracts and to qualified pension and retirement plans only, and will not help you determine the relative total costs of investing in the fund through variable annuity and variable life insurance contracts. If the fees and expenses imposed under the variable contracts were included, your costs would have been higher.

Share Class		Annualized Expense Ratio	Beginning Account Value 7/01/18	Ending Account Value 12/31/18	Expenses Paid During Period (p) 7/01/18-12/31/18
Initial Class	Actual	0.80%	\$1,000.00	\$1,005.67	\$4.04
	Hypothetical (h)	0.80%	\$1,000.00	\$1,021.17	\$4.08
Service Class	Actual	1.05%	\$1,000.00	\$1,004.70	\$5.31
	Hypothetical (h)	1.05%	\$1,000.00	\$1,019.91	\$5.35

(h) 5% class return per year before expenses.

(p) "Expenses Paid During Period" are equal to each class's annualized expense ratio, as shown above, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying funds in which the fund invests. If these indirect costs were included, your costs would have been higher.

## PORTFOLIO OF INVESTMENTS – 12/31/18

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

Issuer	Shares/Par	Value (\$)	Issuer	Shares/Par	Value (\$)
<b>BONDS – 77.3%</b>			<b>BONDS – continued</b>		
<b>Asset-Backed &amp; Securitized – 26.1%</b>			<b>Asset-Backed &amp; Securitized – continued</b>		
A Voce CLO Ltd., 2014-1A, "BR", FLR, 4.586% (LIBOR - 3mo. + 2.15%), 7/15/2026 (n)	\$ 290,000	\$ 284,006	Drive Auto Receivables Trust, 2017-1, "C", 2.84%, 4/15/2022	\$ 98,000	\$ 97,876
Allegro CLO Ltd., 2014-1RA, "C", FLR, 5.152% (LIBOR - 3mo. + 3%), 10/21/2028 (z)	250,000	235,159	DT Auto Owner Trust, 2017-2A, "C", 3.03%, 1/17/2023 (n)	215,000	214,775
ALM Loan Funding CLO, 2015-16A, "BR2", FLR, 4.336% (LIBOR - 3mo. + 1.9%), 7/15/2027 (n)	260,000	250,691	DT Auto Owner Trust, 2018-2A, "C", 3.67%, 3/15/2024 (n)	82,000	82,390
Arbor Realty CLO Ltd., 2018-A, "FL-1", FLR, 3.605% (LIBOR - 1mo. + 1.15%), 6/15/2028 (z)	260,000	255,804	Exantas Capital Corp. CLO Ltd., 2018-RS06, "B", FLR, 3.605% (LIBOR - 1mo. + 1.15%), 6/15/2035 (z)	260,000	254,768
Babson CLO Ltd., 2013-IIA, "BR", FLR, 3.719% (LIBOR - 3mo. + 1.25%), 1/20/2028 (n)	250,000	241,462	Falcon Franchise Loan LLC, 8.047%, 1/05/2023 (i)(z)	6,860	272
Bancorp Commercial Mortgage Trust 2018-CRE4, "D", FLR, 4.555% (LIBOR - 1mo. + 2.1%), 9/15/2035 (z)	200,000	200,029	Figuerola CLO Ltd., 2014-1A, "DR", FLR, 5.686% (LIBOR - 3mo. + 3.25%), 1/15/2027 (z)	250,000	239,599
Bancorp Commercial Mortgage Trust, 2018-CR3, "D", FLR, 5.155% (LIBOR - 1mo. + 2.7%), 1/15/2033 (z)	248,157	246,143	Flatiron CLO Ltd., 2015-1A, "CR", FLR, 4.336% (LIBOR - 3mo. + 1.9%), 4/15/2027 (n)	260,000	250,625
Bayview Financial Revolving Mortgage Loan Trust, FLR, 4.105% (LIBOR - 1mo. + 1.6%), 12/28/2040 (z)	152,924	141,244	GMF Floorplan Owner Revolving Trust, 2017-2, "C", 2.63%, 7/15/2022 (z)	260,000	257,257
BDS Ltd., 2018-FL2, "C", FLR, 4.305% (LIBOR - 1mo. + 1.85%), 8/15/2035 (z)	200,000	193,077	GS Mortgage Securities Trust, 2017-GS6, "A3", 3.433%, 5/10/2050	177,406	174,141
Benchmark Mortgage Trust, "2018-B1", 3.666%, 1/15/2051	251,384	251,676	GS Mortgage Securities Trust, 2017-GS7, "A4", 3.43%, 8/10/2050	251,247	245,476
Business Jet Securities LLC, 2018-1, "C", 7.748%, 2/15/2033 (z)	91,719	94,363	Hunt CRE Ltd., 2018-FL2, "D", FLR, 5.205% (LIBOR - 1mo. + 2.75%), 8/15/2028 (z)	200,000	198,338
Chesapeake Funding II LLC, 2017-2A, "C", 3.01%, 5/15/2029 (n)	215,000	213,150	Invitation Homes Trust, 2018-SFR1, "C", FLR, 3.705% (LIBOR - 1mo. + 1.25%), 3/17/2037 (z)	130,000	128,555
Citigroup Commercial Mortgage Trust, 2017-C4, 3.471%, 10/12/2050	173,669	171,366	JPMorgan Chase Commercial Mortgage Securities Corp., 3.454%, 9/15/2050	134,136	132,245
Commercial Mortgage Pass-Through Certificates, "2017-BNK8", "A3", 3.229%, 11/15/2050	250,000	243,009	KKR Real Estate Financial Trust Inc Ltd., 2018-FL1, "D", FLR, 4.852% (LIBOR - 1mo. + 2.55%), 6/15/2036 (z)	205,000	204,995
Commercial Mortgage Pass-Through Certificates, "2018-BNK10", "A5", 3.688%, 2/15/2061	250,000	248,760	Lehman Brothers Commercial Conduit Mortgage Trust, 0.954%, 2/18/2030 (i)	5,957	0
Commercial Mortgage Trust, 2015-PC1, "A5", 3.902%, 7/10/2050	346,107	353,109	LoanCore Ltd., 2018-CRE1, "C", FLR, 5.005% (LIBOR - 1mo. + 2.55%), 5/15/2028 (n)	260,000	255,032
Commercial Mortgage Trust, 2017-CD4, "A4", 3.514%, 5/10/2050	112,627	111,859	Man GLG US CLO 2018-2 Ltd., 2018-2A, "BR", FLR, 5.101% (LIBOR - 3mo. + 2.45%), 10/15/2028	250,000	245,002
Commercial Mortgage Trust, 2017-COR2, "A3", 3.51%, 9/10/2050	250,000	245,684	Morgan Stanley Bank of America Merrill Lynch Trust, 2017-C34, "A4", 3.536%, 11/15/2052	250,000	246,534
CPS Auto Trust, 2016-D, "B", 2.11%, 3/15/2021 (n)	203,755	203,157	Morgan Stanley Capital I Trust, 2017-H1, "A5", 3.53%, 6/15/2050	187,518	185,476
Crest Ltd., CDO, 7%, (0.001% cash or 7% PIK) 1/28/2040 (a)(p)	734,116	88,094	Navistar Financial Dealer Note Master Owner Trust II, Series 2018-1, FLR, 4.056% (LIBOR - 1mo. + 1.55%), 9/25/2023 (z)	269,000	269,178
Cutwater Ltd., 2015-IA, "BR", FLR, 4.236% (LIBOR - 3mo. + 1.8%), 1/15/2029 (z)	250,000	249,209	Neuberger Berman CLO Ltd., 2016-21A, "CR", FLR, 4.069% (LIBOR - 3mo. + 1.6%), 4/20/2027 (n)	250,000	235,496

# MFS Strategic Income Portfolio

Portfolio of Investments – continued

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>Asset-Backed &amp; Securitized – continued</b>		
NextGear Floorplan Master Owner Trust, 2017-2A, "B", 3.02%, 10/17/2022 (n)	\$ 212,000	\$ 210,837
NextGear Floorplan Master Owner Trust, 2018-1A, "B", 3.57%, 2/15/2023 (z)	200,000	200,159
Oaktree CLO Ltd., 2014-2A, "BR", FLR, 5.019% (LIBOR - 3mo. + 2.55%), 10/20/2026 (n)	300,000	298,848
Parallel Ltd., 2015-1A, "DR", FLR, 5.019% (LIBOR - 3mo. + 2.55%), 7/20/2027 (n)	250,000	235,469
Race Point CLO Ltd., 2013-8A, "CR", FLR, 5.144% (LIBOR - 3mo. + 2.5%), 2/20/2030 (n)	300,000	289,565
Santander Drive Auto Receivables Trust, 2017-2, "C", 2.79%, 8/15/2022	214,000	212,986
Sierra Receivables Funding Co. LLC, 2015-1A, "A", 2.4%, 3/22/2032 (n)	32,718	32,521
UBS Commercial Mortgage Trust 2017-C6, "A5", 3.579%, 12/15/2050	250,000	247,565
UBS Commercial Mortgage Trust 2017-C7, "A4", 3.679%, 12/15/2050	250,000	249,384
UBS Commercial Mortgage Trust 2017-C8, "A4", 3.983%, 2/15/2051	250,000	254,923
UBS Commercial Mortgage Trust, 2017-C1, "A4", 3.544%, 11/15/2050	251,247	248,880
Wells Fargo Commercial Mortgage Trust, 2017-C42, "A5", 3.589%, 12/15/2050	250,000	248,445
Wells Fargo Commercial Mortgage Trust, 2017-RB1, "A4", 3.374%, 3/15/2050	280,000	274,150
West CLO Ltd., 2014-1A, "CR", FLR, 5.444% (LIBOR - 3mo. + 3%), 7/18/2026 (n)	260,000	252,480
		<u>\$ 11,695,293</u>
<b>Automotive – 0.3%</b>		
General Motors Co., 4.2%, 10/01/2027	\$ 134,000	\$ 120,844
<b>Broadcasting – 0.3%</b>		
Time Warner, Inc., 3.8%, 2/15/2027	\$ 125,000	\$ 117,351
<b>Brokerage &amp; Asset Managers – 1.3%</b>		
Charles Schwab Corp., 3.2%, 1/25/2028	\$ 228,000	\$ 218,634
E*TRADE Financial Corp., 4.5%, 6/20/2028	292,000	287,917
Raymond James Financial, Inc., 4.95%, 7/15/2046	75,000	72,150
		<u>\$ 578,701</u>
<b>Building – 0.7%</b>		
Martin Marietta Materials, Inc., 4.25%, 7/02/2024	\$ 215,000	\$ 217,582
Martin Marietta Materials, Inc., 3.5%, 12/15/2027	115,000	104,910
		<u>\$ 322,492</u>
<b>Cable TV – 1.1%</b>		
Cox Communications, Inc., 3.5%, 8/15/2027 (n)	\$ 200,000	\$ 184,497
Time Warner Cable, Inc., 8.25%, 4/01/2019	150,000	151,683
Time Warner Cable, Inc., 4.5%, 9/15/2042	183,000	147,288
		<u>\$ 483,468</u>

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>Chemicals – 0.4%</b>		
Sasol Chemicals (USA) LLC, 5.875%, 3/27/2024	\$ 200,000	\$ 199,565
<b>Computer Software – 0.8%</b>		
Microsoft Corp., 3.125%, 11/03/2025	\$ 133,000	\$ 131,606
Microsoft Corp., 4.25%, 2/06/2047	205,000	215,516
		<u>\$ 347,122</u>
<b>Computer Software – Systems – 0.6%</b>		
Apple, Inc., 4.25%, 2/09/2047	\$ 250,000	\$ 249,487
<b>Conglomerates – 0.9%</b>		
United Technologies Corp., 4.125%, 11/16/2028	\$ 166,000	\$ 164,832
United Technologies Corp., 4.05%, 5/04/2047	120,000	106,640
Wabtec Corp., 4.7%, 9/15/2028	132,000	123,871
		<u>\$ 395,343</u>
<b>Consumer Products – 1.4%</b>		
Reckitt Benckiser Treasury Services PLC, 3.625%, 9/21/2023 (n)	\$ 259,000	\$ 260,652
Reckitt Benckiser Treasury Services PLC, 2.75%, 6/26/2024 (n)	401,000	378,963
		<u>\$ 639,615</u>
<b>Consumer Services – 0.8%</b>		
Priceline Group, Inc., 3.55%, 3/15/2028	\$ 242,000	\$ 226,698
Toll Road Investors Partnership II LP, Capital Appreciation, 0%, 2/15/2026 (n)	46,000	31,821
Toll Road Investors Partnership II LP, Capital Appreciation, 0%, 2/15/2029 (n)	132,000	75,723
Toll Road Investors Partnership II LP, Capital Appreciation, 0%, 2/15/2031 (n)	46,000	23,369
		<u>\$ 357,611</u>
<b>Emerging Market Quasi-Sovereign – 2.1%</b>		
Petrobras Global Finance B.V., 5.999%, 1/27/2028	\$ 117,000	\$ 110,157
PT Indonesia Asahan Aluminium (Persero), 5.71%, 11/15/2023 (n)	200,000	203,508
PT Indonesia Asahan Aluminium (Persero), 6.53%, 11/15/2028 (n)	200,000	209,775
REC Ltd., 5.25%, 11/13/2023 (n)	200,000	200,548
Southern Gas Corridor CJSC, 6.875%, 3/24/2026	200,000	216,008
		<u>\$ 939,996</u>
<b>Emerging Market Sovereign – 2.6%</b>		
Arab Republic of Egypt, 6.588%, 2/21/2028 (n)	\$ 212,000	\$ 189,010
Government of Ukraine, 7.75%, 9/01/2021	135,000	126,900
Government of Ukraine, 9.75%, 11/01/2028 (n)	200,000	187,416
Republic of Argentina, 5.875%, 1/11/2028	95,000	68,281
Republic of Philippines, 8%, 7/19/2031	PHP 5,375,000	110,044
Republic of Turkey, 7.375%, 2/05/2025	\$ 243,000	250,363



## Portfolio of Investments – continued

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>Emerging Market Sovereign – continued</b>		
Socialist Republic of Vietnam, 4.8%, 11/19/2024	\$ 231,000	\$ 232,833
		<u>\$ 1,164,847</u>
<b>Energy – Independent – 0.5%</b>		
Canadian Oil Sands Co., 7.75%, 5/15/2019 (n)	\$ 126,000	\$ 127,828
Canadian Oil Sands Co., 4.5%, 4/01/2022 (n)	118,000	118,430
		<u>\$ 246,258</u>
<b>Energy – Integrated – 0.9%</b>		
Eni S.p.A., 4%, 9/12/2023 (n)	\$ 200,000	\$ 196,920
Shell International Finance B.V., 2.875%, 5/10/2026	225,000	215,591
		<u>\$ 412,511</u>
<b>Food &amp; Beverages – 2.0%</b>		
Anheuser Busch InBev Worldwide, Inc., 4.439%, 10/06/2048	\$ 125,491	\$ 108,517
Conagra Brands, Inc., 4.6%, 11/01/2025	282,000	283,020
Constellation Brands, Inc., 4.4%, 11/15/2025	315,000	315,766
General Mills, Inc., 4.55%, 4/17/2038	62,000	57,586
Kraft Foods Group, Inc., 5%, 6/04/2042	62,000	55,509
Wm. Wrigley Jr. Co., 3.375%, 10/21/2020 (n)	81,000	81,212
		<u>\$ 901,610</u>
<b>Insurance – 0.9%</b>		
American International Group, Inc., 3.9%, 4/01/2026	\$ 294,000	\$ 283,246
American International Group, Inc., 4.7%, 7/10/2035	59,000	56,096
American International Group, Inc., 4.5%, 7/16/2044	53,000	47,324
		<u>\$ 386,666</u>
<b>Insurance – Health – 0.4%</b>		
UnitedHealth Group, Inc., 3.75%, 10/15/2047	\$ 220,000	\$ 201,640
<b>Insurance – Property &amp; Casualty – 1.2%</b>		
Allied World Assurance Co. Holdings Ltd., 4.35%, 10/29/2025	\$ 310,000	\$ 305,739
Marsh & McLennan Cos., Inc., 4.2%, 3/01/2048	277,000	251,943
		<u>\$ 557,682</u>
<b>International Market Quasi-Sovereign – 0.6%</b>		
Dexia Credit Local S.A., 2.25%, 2/18/2020 (n)	\$ 270,000	\$ 268,378
<b>Machinery &amp; Tools – 0.3%</b>		
CNH Industrial Capital LLC, 3.85%, 11/15/2027	\$ 145,000	\$ 131,963
<b>Major Banks – 7.3%</b>		
Bank of America Corp., 2.151%, 11/09/2020	\$ 100,000	\$ 98,187
Bank of America Corp., 4.125%, 1/22/2024	75,000	76,017
Bank of America Corp., 3.248%, 10/21/2027	656,000	606,634
Bank of America Corp., 4.271% to 7/23/2028, FLR (LIBOR - 3mo. + 1.31%) to 7/23/2029	136,000	135,444

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>Major Banks – continued</b>		
Bank of New York Mellon Corp., 3.5%, 4/28/2023	\$ 329,000	\$ 329,968
Credit Suisse Group AG, 3.869%, 1/12/2029 (n)	250,000	232,714
ING Bank N.V., 5.8%, 9/25/2023 (n)	322,000	336,317
JPMorgan Chase & Co., 3.125%, 1/23/2025	220,000	209,685
JPMorgan Chase & Co., 3.882% to 7/24/2037, FLR (LIBOR - 3mo. + 1.36%) to 7/24/2038	269,000	245,087
Morgan Stanley, 3.7%, 10/23/2024	277,000	272,378
Morgan Stanley, 3.625%, 1/20/2027	317,000	301,438
UBS Group Funding (Switzerland) AG, 4.253%, 3/23/2028 (n)	415,000	409,426
		<u>\$ 3,253,295</u>
<b>Medical &amp; Health Technology &amp; Services – 0.7%</b>		
Becton, Dickinson and Co., 3.734%, 12/15/2024	\$ 318,000	\$ 307,162
<b>Medical Equipment – 0.7%</b>		
Abbott Laboratories, 4.75%, 11/30/2036	\$ 305,000	\$ 318,470
<b>Metals &amp; Mining – 0.9%</b>		
Glencore Funding LLC, 4.125%, 5/30/2023 (n)	\$ 164,000	\$ 161,046
Glencore Funding LLC, 4%, 4/16/2025 (n)	84,000	79,078
Glencore Funding LLC, 3.875%, 10/27/2027 (n)	167,000	149,295
		<u>\$ 389,419</u>
<b>Midstream – 0.7%</b>		
MPLX LP, 4%, 3/15/2028	\$ 315,000	\$ 295,408
<b>Mortgage-Backed – 0.6%</b>		
Fannie Mae, 5.5%, 3/01/2020 - 9/01/2034	\$ 12,712	\$ 13,569
Fannie Mae, 6.5%, 4/01/2032	19,209	21,238
Freddie Mac, 4.224%, 3/25/2020	234,148	237,053
		<u>\$ 271,860</u>
<b>Municipals – 0.7%</b>		
New Jersey Economic Development Authority State Pension Funding Rev., Capital Appreciation, "B", AGM, 0%, 2/15/2023	\$ 350,000	\$ 299,544
<b>Network &amp; Telecom – 0.6%</b>		
AT&T, Inc., 5.45%, 3/01/2047	\$ 286,000	\$ 279,686
<b>Other Banks &amp; Diversified Financials – 0.7%</b>		
Compass Bank, 2.875%, 6/29/2022	\$ 250,000	\$ 239,544
JSC Kazkommertsbank, 5.5%, 12/21/2022	99,000	97,018
		<u>\$ 336,562</u>
<b>Pharmaceuticals – 0.4%</b>		
Actavis Funding SCS, 3.8%, 3/15/2025	\$ 179,000	\$ 174,819
<b>Supranational – 0.8%</b>		
Corporacion Andina de Fomento, 4.375%, 6/15/2022	\$ 340,000	\$ 351,883

# MFS Strategic Income Portfolio

Portfolio of Investments – continued

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>Telecommunications – Wireless – 1.0%</b>		
American Tower Corp., REIT, 3.55%, 7/15/2027	\$ 358,000	\$ 336,034
American Tower Corp., REIT, 3.6%, 1/15/2028	125,000	116,861
		<u>\$ 452,895</u>
<b>Tobacco – 0.8%</b>		
B.A.T. Capital Corp., 3.557%, 8/15/2027	\$ 384,000	\$ 341,087
<b>Transportation – Services – 0.6%</b>		
ERAC USA Finance LLC, 3.8%, 11/01/2025 (n)	\$ 267,000	\$ 261,877
<b>U.S. Government Agencies and Equivalents – 0.2%</b>		
Small Business Administration, 6.35%, 4/01/2021	\$ 1,741	\$ 1,780
Small Business Administration, 4.77%, 4/01/2024	20,085	20,666
Small Business Administration, 4.99%, 9/01/2024	15,439	15,971
Small Business Administration, 4.86%, 1/01/2025	21,183	21,838
Small Business Administration, 4.625%, 2/01/2025	27,571	28,325
Small Business Administration, 5.11%, 8/01/2025	21,334	22,054
		<u>\$ 110,634</u>
<b>U.S. Treasury Obligations – 13.4%</b>		
U.S. Treasury Bonds, 4.75%, 2/15/2037	\$ 54,000	\$ 68,891
U.S. Treasury Bonds, 3.5%, 2/15/2039	326,000	357,062
U.S. Treasury Bonds, 2.5%, 2/15/2045 (f)	1,669,000	1,515,371
U.S. Treasury Notes, 2.875%, 10/31/2020	529,000	532,219

(a) Non-income producing security.

(f) All or a portion of the security has been segregated as collateral for open futures contracts and cleared swap agreements.

(h) An affiliated issuer, which may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. At period end, the aggregate values of the fund's investments in affiliated issuers and in unaffiliated issuers were \$7,686,573 and \$34,597,689, respectively.

(i) Interest only security for which the fund receives interest on notional principal (Par amount). Par amount shown is the notional principal and does not reflect the cost of the security.

(n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$8,356,351, representing 18.7% of net assets.

(p) Payment-in-kind (PIK) security for which interest income may be received in additional securities and/or cash.

(v) Affiliated issuer that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.

(z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

Restricted Securities	Acquisition Date	Cost	Value
Allegro CLO Ltd., 2014-1RA, "C", FLR, 5.152% (LIBOR - 3mo. + 3%), 10/21/2028	8/22/18	\$250,000	\$235,159
Arbor Realty CLO Ltd., 2018-A, "FL-1", FLR, 3.605% (LIBOR - 1mo. + 1.15%), 6/15/2028	5/23/18	260,000	255,804
Bancorp Commercial Mortgage Trust 2018-CRE4, "D", FLR, 4.555% (LIBOR - 1mo. + 2.1%), 9/15/2035	9/17/18	200,000	200,029
Bancorp Commercial Mortgage Trust, 2018-CR3, "D", FLR, 5.155% (LIBOR - 1mo. + 2.7%), 1/15/2033	3/13/18	248,157	246,143
Bayview Financial Revolving Mortgage Loan Trust, FLR, 4.105% (LIBOR - 1mo. + 1.6%), 12/28/2040	3/01/06	152,924	141,244
BDS Ltd., 2018-FL2, "C", FLR, 4.305% (LIBOR - 1mo. + 1.85%), 8/15/2035	7/25/18	200,000	193,077

Issuer	Shares/Par	Value (\$)
<b>BONDS – continued</b>		
<b>U.S. Treasury Obligations – continued</b>		
U.S. Treasury Notes, 1.75%, 11/30/2021	\$ 1,110,000	\$ 1,087,563
U.S. Treasury Notes, 1.75%, 2/28/2022 (f)	2,478,000	2,423,922
		<u>\$ 5,985,028</u>
<b>Utilities – Electric Power – 1.0%</b>		
Enel Finance International N.V., 3.625%, 5/25/2027 (n)	\$ 280,000	\$ 247,137
Enel Finance International N.V., 4.875%, 6/14/2029 (n)	200,000	190,907
		<u>\$ 438,044</u>
<b>Total Bonds (Identified Cost, \$35,595,279)</b>		<b><u>\$34,586,116</u></b>
<b>COMMON STOCKS – 0.0%</b>		
<b>Energy – Independent – 0.0%</b>		
Frontera Energy Corp. (a) (Identified Cost, \$106,984)	1,188	\$ 11,573
<b>INVESTMENT COMPANIES (h) – 17.2%</b>		
<b>Bond Funds – 13.9%</b>		
MFS High Yield Pooled Portfolio (v)	725,387	\$ 6,231,072
<b>Money Market Funds – 3.3%</b>		
MFS Institutional Money Market Portfolio, 2.4% (v)	1,455,646	\$ 1,455,501
<b>Total Investment Companies (Identified Cost, \$8,974,737)</b>		<b><u>\$ 7,686,573</u></b>
<b>OTHER ASSETS, LESS</b>		
<b>LIABILITIES – 5.5%</b>		<u>2,440,503</u>
<b>NET ASSETS – 100.0%</b>		<b><u>\$44,724,765</u></b>

## Portfolio of Investments – continued

Restricted Securities - continued	Acquisition Date	Cost	Value
Business Jet Securities LLC, 2018-1, "C", 7.748%, 2/15/2033	2/21/18	\$91,718	\$94,363
Cutwater Ltd., 2015-1A, "BR", FLR, 4.236% (LIBOR - 3mo. + 1.8%), 1/15/2029	8/15/18	250,000	249,209
Exantas Capital Corp. CLO Ltd., 2018-RS06, "B", FLR, 3.605% (LIBOR - 1mo. + 1.15%), 6/15/2035	6/07/18	260,000	254,768
Falcon Franchise Loan LLC, 8.047%, 1/05/2023	1/18/02	272	272
Figueroa CLO Ltd., 2014-1A, "DR", FLR, 5.686% (LIBOR - 3mo. + 3.25%), 1/15/2027	1/28/18	250,000	239,599
GMF Floorplan Owner Revolving Trust, 2017-2, "C", 2.63%, 7/15/2022	8/15/17	259,955	257,257
Hunt CRE Ltd., 2018-FL2, "D", FLR, 5.205% (LIBOR - 1mo. + 2.75%), 8/15/2028	8/03/18	200,000	198,338
Invitation Homes Trust, 2018-SFR1, "C", FLR, 3.705% (LIBOR - 1mo. + 1.25%), 3/17/2037	1/26/18	130,000	128,555
KKR Real Estate Financial Trust Inc Ltd., 2018-FL1, "D", FLR, 4.852% (LIBOR - 1mo. + 2.55%), 6/15/2036	11/07/18	205,000	204,995
Navistar Financial Dealer Note Master Owner Trust II, Series 2018-1, FLR, 4.056% (LIBOR - 1mo. + 1.55%), 9/25/2023	9/17/18	269,000	269,178
NextGear Floorplan Master Owner Trust, 2018-1A, "B", 3.57%, 2/15/2023	3/06/18	199,985	200,159
<b>Total Restricted Securities</b>			<b>\$3,368,149</b>
<b>% of Net assets</b>			<b>7.5%</b>

The following abbreviations are used in this report and are defined:

AGM	Assured Guaranty Municipal
CDO	Collateralized Debt Obligation
CJSC	Closed Joint Stock Company
CLO	Collateralized Loan Obligation
FLR	Floating Rate. Interest rate resets periodically based on the parenthetically disclosed reference rate plus a spread (if any). The period-end rate reported may not be the current rate. All reference rates are USD unless otherwise noted.
JSC	Joint Stock Company
LIBOR	London Interbank Offered Rate
PLC	Public Limited Company
REIT	Real Estate Investment Trust

Abbreviations indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

EUR	Euro
JPY	Japanese Yen
MXN	Mexican Peso
PHP	Philippine Peso
TRY	Turkish Lira

## Derivative Contracts at 12/31/18

## Forward Foreign Currency Exchange Contracts

Currency Purchased	Currency Sold	Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
<b>Asset Derivatives</b>				
TRY	642,000 USD	108,974 Deutsche Bank AG	1/11/2019	\$11,728
USD	2,241 EUR	1,918 Goldman Sachs International	1/11/2019	42
				<u>\$11,770</u>
<b>Liability Derivatives</b>				
MXN	21 USD	1 Goldman Sachs International	1/11/2019	\$(0)
USD	465,388 JPY	52,012,792 State Street Bank Corp.	1/15/2019	(9,466)
USD	450,361 JPY	51,000,000 Goldman Sachs International	1/07/2019	(14,946)
USD	442,011 JPY	50,005,450 Goldman Sachs International	1/11/2019	(14,370)
USD	906,850 JPY	101,600,000 Goldman Sachs International	1/22/2019	(21,226)
USD	113,075 PHP	6,006,000 JPMorgan Chase Bank N.A.	2/19/2019	(647)
				<u>\$(60,655)</u>

# MFS Strategic Income Portfolio

Portfolio of Investments – continued

## Futures Contracts

Description	Long/ Short	Currency	Contracts	Notional Amount	Expiration Date	Value/Unrealized Appreciation (Depreciation)
<b>Asset Derivatives</b>						
<b>Interest Rate Futures</b>						
U.S. Treasury Bond 30 yr	Long	USD	11	\$1,606,000	March - 2019	\$74,553
U.S. Treasury Note 2 yr	Long	USD	31	6,581,687	March - 2019	42,922
U.S. Treasury Ultra Bond 30 yr	Long	USD	11	1,767,219	March - 2019	92,858
						<u>\$210,333</u>
<b>Liability Derivatives</b>						
<b>Interest Rate Futures</b>						
U.S. Treasury Ultra Note 10 yr	Short	USD	28	\$3,642,187	March - 2019	<u>\$(117,133)</u>

## Cleared Swap Agreements

Maturity Date	Notional Amount	Counterparty	Cash Flows to Receive/ Frequency	Cash Flows to Pay/ Frequency	Unrealized Appreciation (Depreciation)	Net Unamortized Upfront Payments (Receipts)	Value
<b>Liability Derivatives</b>							
<b>Credit Default Swaps</b>							
12/20/23	USD 690,000	centrally cleared	(1)	5% / Quarterly	<u>\$(6,583)</u>	<u>\$(8,575)</u>	<u>\$(15,158)</u>

## Uncleared Swap Agreements

Maturity Date	Notional Amount	Counterparty	Cash Flows to Receive/ Frequency	Cash Flows to Pay/ Frequency	Unrealized Appreciation (Depreciation)	Net Unamortized Upfront Payments (Receipts)	Value
<b>Asset Derivatives</b>							
<b>Credit Default Swaps</b>							
11/18/54	USD 900,000	Morgan Stanley	(2)	0.5% / Quarterly	<u>\$(321)</u>	<u>\$17,527</u>	<u>\$17,206</u>

(1) Fund, as protection buyer, to receive notional amount upon a defined credit event by a reference obligation specified in the Markit CDX North America High Yield Index.

(2) Fund, as protection buyer, to receive notional amount upon a defined credit event by a reference obligation specified in the Markit CMBX AAA Index.

At December 31, 2018, the fund had liquid securities with an aggregate value of \$79,910 to cover any collateral or margin obligations for certain derivative contracts.

## See Notes to Financial Statements

## FINANCIAL STATEMENTS | STATEMENT OF ASSETS AND LIABILITIES

This statement represents your fund's balance sheet, which details the assets and liabilities comprising the total value of the fund.

**At 12/31/18**

### Assets

Investments in unaffiliated issuers, at value (identified cost, \$35,702,263)	\$34,597,689
Investments in affiliated issuers, at value (identified cost, \$8,974,737)	7,686,573
Cash	26,298
Foreign currency, at value (identified cost, \$2,278,319)	2,322,740
Receivables for	
Forward foreign currency exchange contracts	11,770
Net daily variation margin on open futures contracts	2,936
Investments sold	21,497
Interest	278,867
Uncleared swaps, at value (net unamortized premiums paid, \$17,527)	17,206
Receivable from investment adviser	7,273
Other assets	586
<b>Total assets</b>	<b>\$44,973,435</b>

### Liabilities

Payables for	
Net daily variation margin on open cleared swap agreements	\$1,044
Forward foreign currency exchange contracts	60,655
Due to broker for swap premium	17,533
Fund shares reacquired	111,496
Payable to affiliates	
Shareholder servicing costs	103
Distribution and/or service fees	181
Payable for independent Trustees' compensation	20
Accrued expenses and other liabilities	57,638
<b>Total liabilities</b>	<b>\$248,670</b>
<b>Net assets</b>	<b>\$44,724,765</b>

### Net assets consist of

Paid-in capital	\$46,781,636
Total distributable earnings (loss)	(2,056,871)
<b>Net assets</b>	<b>\$44,724,765</b>
Shares of beneficial interest outstanding	4,835,638

	<b>Net assets</b>	<b>Shares outstanding</b>	<b>Net asset value per share</b>
Initial Class	\$38,111,036	4,115,651	\$9.26
Service Class	6,613,729	719,987	9.19

**See Notes to Financial Statements**

## FINANCIAL STATEMENTS | STATEMENT OF OPERATIONS

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

### Year ended 12/31/18

#### Net investment income (loss)

Income	
Interest	\$1,429,393
Dividends from affiliated issuers	542,494
Other	168
Income on securities loaned	2
Foreign taxes withheld	(1,604)
Total investment income	\$1,970,453
Expenses	
Management fee	\$326,563
Distribution and/or service fees	16,749
Shareholder servicing costs	11,504
Administrative services fee	17,500
Independent Trustees' compensation	940
Custodian fee	10,493
Shareholder communications	12,070
Audit and tax fees	77,936
Legal fees	1,034
Miscellaneous	24,287
Total expenses	\$499,076
Reduction of expenses by investment adviser	(108,499)
Net expenses	\$390,577
Net investment income (loss)	\$1,579,876

#### Realized and unrealized gain (loss)

Realized gain (loss) (identified cost basis)	
Unaffiliated issuers	\$(545,136)
Affiliated issuers	(411,187)
Futures contracts	(49,036)
Swap agreements	449
Forward foreign currency exchange contracts	838
Foreign currency	(1,537)
Net realized gain (loss)	\$(1,005,609)
Change in unrealized appreciation or depreciation	
Unaffiliated issuers	\$(1,332,277)
Affiliated issuers	(305,791)
Futures contracts	92,062
Swap agreements	(6,904)
Forward foreign currency exchange contracts	(48,332)
Translation of assets and liabilities in foreign currencies	44,437
Net unrealized gain (loss)	\$(1,556,805)
Net realized and unrealized gain (loss)	\$(2,562,414)
Change in net assets from operations	\$(982,538)

#### See Notes to Financial Statements

## FINANCIAL STATEMENTS | STATEMENTS OF CHANGES IN NET ASSETS

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

	Year ended	
	12/31/18	12/31/17
<b>Change in net assets</b>		
<b>From operations</b>		
Net investment income (loss)	\$1,579,876	\$1,730,642
Net realized gain (loss)	(1,005,609)	620,201
Net unrealized gain (loss)	(1,556,805)	746,622
Change in net assets from operations	\$(982,538)	\$3,097,465
Total distributions to shareholders (a)	\$(1,829,013)	\$(2,356,097)
Change in net assets from fund share transactions	\$(2,160,371)	\$(4,011,928)
Total change in net assets	\$(4,971,922)	\$(3,270,560)
<b>Net assets</b>		
At beginning of period	49,696,687	52,967,247
At end of period (b)	\$44,724,765	\$49,696,687

(a) Distributions from net investment income and from net realized gain are no longer required to be separately disclosed. See Note 2. For the year ended December 31, 2017, distributions from net investment income were \$2,356,097.

(b) Parenthetical disclosure of undistributed net investment income is no longer required. See Note 2. For the year ended December 31, 2017, end of period net assets included undistributed net investment income of \$1,795,137.

**See Notes to Financial Statements**

## FINANCIAL STATEMENTS | FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the fund's financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

Initial Class	Year ended				
	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Net asset value, beginning of period	\$9.84	\$9.71	\$9.25	\$10.01	\$10.01
<b>Income (loss) from investment operations</b>					
Net investment income (loss) (d)	\$0.33	\$0.34	\$0.40(c)	\$0.37	\$0.41
Net realized and unrealized gain (loss)	(0.52)	0.26	0.37	(0.55)	(0.08)
Total from investment operations	\$(0.19)	\$0.60	\$0.77	\$(0.18)	\$0.33
<b>Less distributions declared to shareholders</b>					
From net investment income	\$(0.39)	\$(0.47)	\$(0.31)	\$(0.58)	\$(0.33)
Net asset value, end of period (x)	\$9.26	\$9.84	\$9.71	\$9.25	\$10.01
Total return (%) (k)(r)(s)(x)	(1.99)	6.24	8.24(c)	(1.85)	3.27
<b>Ratios (%) (to average net assets) and Supplemental data:</b>					
Expenses before expense reductions (f)(h)	1.03	1.02	0.89(c)	0.96	0.94
Expenses after expense reductions (f)(h)	0.80	0.80	0.71(c)	0.80	0.80
Net investment income (loss)	3.42	3.39	4.09(c)	3.74	4.05
Portfolio turnover	59	72	21	31	21
Net assets at end of period (000 omitted)	\$38,111	\$42,409	\$44,191	\$47,422	\$59,824
<b>Service Class</b>					
	Year ended				
	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Net asset value, beginning of period	\$9.75	\$9.63	\$9.17	\$9.92	\$9.93
<b>Income (loss) from investment operations</b>					
Net investment income (loss) (d)	\$0.30	\$0.31	\$0.37(c)	\$0.34	\$0.39
Net realized and unrealized gain (loss)	(0.50)	0.25	0.37	(0.54)	(0.09)
Total from investment operations	\$(0.20)	\$0.56	\$0.74	\$(0.20)	\$0.30
<b>Less distributions declared to shareholders</b>					
From net investment income	\$(0.36)	\$(0.44)	\$(0.28)	\$(0.55)	\$(0.31)
Net asset value, end of period (x)	\$9.19	\$9.75	\$9.63	\$9.17	\$9.92
Total return (%) (k)(r)(s)(x)	(2.11)	5.88	8.00(c)	(2.06)	2.99
<b>Ratios (%) (to average net assets) and Supplemental data:</b>					
Expenses before expense reductions (f)(h)	1.28	1.27	1.14(c)	1.21	1.19
Expenses after expense reductions (f)(h)	1.05	1.05	0.97(c)	1.05	1.05
Net investment income (loss)	3.17	3.16	3.83(c)	3.49	3.80
Portfolio turnover	59	72	21	31	21
Net assets at end of period (000 omitted)	\$6,614	\$7,287	\$8,776	\$9,548	\$10,719

**See Notes to Financial Statements**



*Financial Highlights – continued*

- (c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher.
- (d) Per share data is based on average shares outstanding.
- (f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
- (h) In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying affiliated funds in which the fund invests. Accordingly, the expense ratio for the fund reflects only those fees and expenses borne directly by the fund. Because the underlying affiliated funds have varied expense and fee levels and the fund may own different proportions of the underlying affiliated funds at different times, the amount of fees and expenses incurred indirectly by the fund will vary.
- (k) The total return does not reflect expenses that apply to separate accounts. Inclusion of these charges would reduce the total return figures for all periods shown.
- (r) Certain expenses have been reduced without which performance would have been lower.
- (s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
- (x) The net asset values and total returns have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

**See Notes to Financial Statements**

## NOTES TO FINANCIAL STATEMENTS

### (1) Business and Organization

MFS Strategic Income Portfolio (the fund) is a diversified series of MFS Variable Insurance Trust II (the trust). The trust is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as an open-end management investment company. The shareholders of each series of the trust are separate accounts of insurance companies, which offer variable annuity and/or life insurance products, and qualified retirement and pension plans.

The fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services – Investment Companies.

### (2) Significant Accounting Policies

**General** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund's Statement of Assets and Liabilities through the date that the financial statements were issued. The fund invests in the MFS High Yield Pooled Portfolio ("High Yield Pooled Portfolio"). MFS does not receive a management fee from the High Yield Pooled Portfolio. The High Yield Pooled Portfolio's investment objective is to seek total return with an emphasis on high current income, but also considering capital appreciation. The accounting policies of the High Yield Pooled Portfolio are outlined in its shareholder report, which is available without charge by calling 1-800-225-2606 and on the Securities and Exchange Commission (SEC) web site at <http://www.sec.gov>. The accounting policies detailed in the Significant Accounting Policies note cover both the fund and the High Yield Pooled Portfolio. For purposes of this policy disclosure, "fund" refers to both the fund and the High Yield Pooled Portfolio in which the fund invests. The High Yield Pooled Portfolio's shareholder report is not covered by this report. The fund and the High Yield Pooled Portfolio invest in high-yield securities rated below investment grade. Investments in below investment grade quality securities can involve a substantially greater risk of default or can already be in default, and their values can decline significantly. Below investment grade quality securities tend to be more sensitive to adverse news about the issuer, or the market or economy in general, than higher quality debt instruments. The fund and the High Yield Pooled Portfolio invest in foreign securities. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country's market, economic, industrial, political, regulatory, geopolitical, and other conditions.

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"). For entities that hold callable debt securities at a premium, ASU 2017-08 requires that the premium be amortized to the earliest call date. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has evaluated the potential impacts of ASU 2017-08 and believes that adoption of ASU 2017-08 will not have a material effect on the fund's overall financial position or its overall results of operations.

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13") which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years; however, management has elected to early adopt ASU 2018-13 effective with the current reporting period. The impact of the fund's adoption was limited to changes in the fund's financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy.

In August 2018, the Securities and Exchange Commission (SEC) released its Final Rule on Disclosure Update and Simplification (the "Final Rule") which is intended to simplify an issuer's disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the fund adopted the Final Rule with the impacts being that the fund is no longer required to present the components of distributable earnings on the Statement of Assets and Liabilities or the sources of distributions to shareholders and the amount of undistributed net investment income on the Statements of Changes in Net Assets.

**Balance Sheet Offsetting** – The fund's accounting policy with respect to balance sheet offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the International Swaps and Derivatives Association (ISDA) Master Agreement, or similar agreement, does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the fund and the applicable counterparty. The fund's right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting

*Notes to Financial Statements – continued*

agreement counterparty is subject. Balance sheet offsetting disclosures, to the extent applicable to the fund, have been included in the fund's Significant Accounting Policies note under the captions for each of the fund's in-scope financial instruments and transactions.

**Investment Valuations** – The investments of the fund and the High Yield Pooled Portfolio are valued as described below.

Equity securities, including restricted equity securities, are generally valued at the last sale or official closing price on their primary market or exchange as provided by a third-party pricing service. Equity securities, for which there were no sales reported that day, are generally valued at the last quoted daily bid quotation on their primary market or exchange as provided by a third-party pricing service. Debt instruments and floating rate loans, including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less may be valued at amortized cost, which approximates market value. Exchange-traded options are generally valued at the last sale or official closing price on their primary exchange as provided by a third-party pricing service. Exchange-traded options for which there were no sales reported that day are generally valued at the last daily bid quotation on their primary exchange as provided by a third-party pricing service. Options not traded on an exchange are generally valued at a broker/dealer bid quotation. Foreign currency options are generally valued at valuations provided by a third-party pricing service. Futures contracts are generally valued at last posted settlement price on their primary exchange as provided by a third-party pricing service. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation on their primary exchange as provided by a third-party pricing service. Forward foreign currency exchange contracts are generally valued at the mean of bid and asked prices for the time period interpolated from rates provided by a third-party pricing service for proximate time periods. Swap agreements are generally valued at valuations provided by a third-party pricing service, which for cleared swaps includes an evaluation of any trading activity at the clearinghouses. Open-end investment companies are generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. In determining values, third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. The values of foreign securities and other assets and liabilities expressed in foreign currencies are converted to U.S. dollars using the mean of bid and asked prices for rates provided by a third-party pricing service.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund's investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with such procedures under the oversight of the Board of Trustees. Under the fund's valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment's value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund's net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund's net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund's net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

Various inputs are used in determining the value of the fund's assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser's own

## MFS Strategic Income Portfolio

### Notes to Financial Statements – continued

assumptions in determining the fair value of investments. Other financial instruments are derivative instruments, such as futures contracts, forward foreign currency exchange contracts, and swap agreements. The following is a summary of the levels used as of December 31, 2018 in valuing the fund's assets or liabilities:

<b>Financial Instruments</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity Securities	\$11,573	\$—	\$—	\$11,573
U.S. Treasury Bonds & U.S. Government Agency & Equivalents	—	6,095,662	—	6,095,662
Non-U.S. Sovereign Debt	—	2,725,104	—	2,725,104
Municipal Bonds	—	299,544	—	299,544
U.S. Corporate Bonds	—	9,318,976	—	9,318,976
Residential Mortgage-Backed Securities	—	400,414	—	400,414
Commercial Mortgage-Backed Securities	—	5,487,772	—	5,487,772
Asset-Backed Securities (including CDOs)	—	6,078,967	—	6,078,967
Foreign Bonds	—	4,179,677	—	4,179,677
Mutual Funds	7,686,573	—	—	7,686,573
<b>Total</b>	<b>\$7,698,146</b>	<b>\$34,586,116</b>	<b>\$—</b>	<b>\$42,284,262</b>
<b>Other Financial Instruments</b>				
Futures Contracts – Assets	\$210,333	\$—	\$—	\$210,333
Futures Contracts – Liabilities	(117,133)	—	—	(117,133)
Forward Foreign Currency Exchange Contracts – Assets	—	11,770	—	11,770
Forward Foreign Currency Exchange Contracts – Liabilities	—	(60,655)	—	(60,655)
Swap Agreements – Assets	—	17,206	—	17,206
Swap Agreements – Liabilities	—	(15,158)	—	(15,158)

For further information regarding security characteristics, see the Portfolio of Investments. Please refer to the High Yield Pooled Portfolio's shareholder report for further information regarding the levels used in valuing its assets or liabilities.

**Foreign Currency Translation** – Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions or on the reporting date for foreign denominated receivables and payables. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on receivables, payables, income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

**Derivatives** – The fund uses derivatives primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative's original cost.

The derivative instruments used by the fund during the period were purchased options, futures contracts, forward foreign currency exchange contracts, and swap agreements. Depending on the type of derivative, the fund may exit a derivative position by entering into an offsetting transaction with a counterparty or exchange, negotiating an agreement with the derivative counterparty, or novating the position to a third party. The fund may be unable to promptly close out a futures position in instances where the daily fluctuation in the price for that type of future exceeds the daily limit set by the exchange. The fund's period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract tables, generally are indicative of the volume of its derivative activity during the period.

The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at December 31, 2018 as reported in the Statement of Assets and Liabilities:

<b>Risk</b>	<b>Derivative Contracts</b>	<b>Fair Value (a)</b>	
		<b>Asset Derivatives</b>	<b>Liability Derivatives</b>
Interest Rate	Interest Rate Futures	\$210,333	\$(117,133)
Foreign Exchange	Forward Foreign Currency Exchange Contracts	11,770	(60,655)
Credit	Credit Default Swaps	17,206	(15,158)
<b>Total</b>		<b>\$239,309</b>	<b>\$(192,946)</b>

(a) Values presented in this table for futures contracts and cleared swap agreements correspond to the values reported in the fund's Portfolio of Investments. Only the current day net variation margin for futures contracts and cleared swap agreements is separately reported within the fund's Statement of Assets and Liabilities.

*Notes to Financial Statements – continued*

The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the year ended December 31, 2018 as reported in the Statement of Operations:

<b>Risk</b>	<b>Futures Contracts</b>	<b>Swap Agreements</b>	<b>Forward Foreign Currency Exchange Contracts</b>	<b>Unaffiliated Issuers (Purchased Options)</b>
Interest Rate	\$(49,036)	\$—	\$—	\$(27,848)
Foreign Exchange	—	—	838	—
Credit	—	449	—	—
<b>Total</b>	<b>\$(49,036)</b>	<b>\$449</b>	<b>\$838</b>	<b>\$(27,848)</b>

The following table presents, by major type of derivative contract, the change in unrealized appreciation or depreciation on derivatives held by the fund for the year ended December 31, 2018 as reported in the Statement of Operations:

<b>Risk</b>	<b>Futures Contracts</b>	<b>Swap Agreements</b>	<b>Forward Foreign Currency Exchange Contracts</b>
Interest Rate	\$92,062	\$—	\$—
Foreign Exchange	—	—	(48,332)
Credit	—	(6,904)	—
<b>Total</b>	<b>\$92,062</b>	<b>\$(6,904)</b>	<b>\$(48,332)</b>

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a specified deterioration in the credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each agreement to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a reduction of the fund's credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

Collateral and margin requirements differ by type of derivative. For cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options), margin requirements are set by the clearing broker and the clearing house and collateral, in the form of cash or securities, is posted by the fund directly with the clearing broker. Collateral terms are counterparty agreement specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options) and collateral, in the form of cash and securities, is held in segregated accounts with the fund's custodian in connection with these agreements. For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, the collateral requirements are netted across all transactions traded under such counterparty-specific agreement and an amount is posted from one party to the other to collateralize such obligations. Cash that has been segregated or delivered to cover the fund's collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as restricted cash for uncleared derivatives and/or deposits with brokers for cleared derivatives. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments. The fund may be required to make payments of interest on uncovered collateral or margin obligations with the broker. Any such payments are included in "Miscellaneous" expense in the Statement of Operations.

**Purchased Options** – The fund purchased put options for a premium. Purchased put options entitle the holder to buy and sell a specified number of shares or units of a particular security, currency or index at a specified price at a specified date or within a specified period of time. Purchasing put options may hedge against an anticipated decline in the value of portfolio securities or currency or decrease the fund's exposure to an underlying instrument.

The premium paid is initially recorded as an investment in the Statement of Assets and Liabilities. That investment is subsequently marked-to-market daily with the difference between the premium paid and the market value of the purchased option being recorded as unrealized appreciation or depreciation. Premiums paid for purchased put options which have expired are treated as realized losses on investments in the Statement of Operations. Upon the exercise or closing of a purchased put option, the premium paid is offset against the proceeds on the sale of the underlying security or financial instrument in order to determine the realized gain or loss on investments.

Whether or not the option is exercised, the fund's maximum risk of loss from purchasing an option is the amount of premium paid. All option contracts involve credit risk if the counterparty to the option contract fails to perform. For uncleared options, this risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund's exposure to the counterparty under such ISDA Master Agreement.

**Futures Contracts** – The fund entered into futures contracts which may be used to hedge against or obtain broad market exposure, interest rate exposure, currency exposure, or to manage duration. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a specified percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures contracts is realized.

The fund bears the risk of interest rates, exchange rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures contracts may present less counterparty risk to the fund since the contracts are exchange traded and the exchange's clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund's maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

**Forward Foreign Currency Exchange Contracts** – The fund entered into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. These contracts may be used to hedge the fund's currency risk or for non-hedging purposes. For hedging purposes, the fund may enter into contracts to deliver or receive foreign currency that the fund will receive from or use in its normal investment activities. The fund may also use contracts to hedge against declines in the value of foreign currency denominated securities due to unfavorable exchange rate movements. For non-hedging purposes, the fund may enter into contracts with the intent of changing the relative exposure of the fund's portfolio of securities to different currencies to take advantage of anticipated exchange rate changes.

Forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any unrealized gains or losses are recorded as a receivable or payable for forward foreign currency exchange contracts until the contract settlement date. On contract settlement date, any gain or loss on the contract is recorded as realized gains or losses on forward foreign currency exchange contracts.

Risks may arise upon entering into these contracts from unanticipated movements in the value of the contract and from the potential inability of counterparties to meet the terms of their contracts. Generally, the fund's maximum risk due to counterparty credit risk is the unrealized gain on the contract due to the use of Continuous Linked Settlement, a multicurrency cash settlement system for the centralized settlement of foreign transactions. This risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund's exposure to the counterparty under such ISDA Master Agreement.

**Swap Agreements** – During the period the fund entered into swap agreements. Swap agreements generally involve a periodic exchange of cash payments on a net basis, at specified intervals or upon the occurrence of specified events, between the fund and a counterparty. Certain swap agreements may be entered into as a bilateral contract ("uncleared swaps") while others are required to be centrally cleared ("cleared swaps"). In a cleared swap transaction, the ultimate counterparty to the transaction is a clearinghouse (the "clearinghouse"). The contract is transferred and accepted by the clearinghouse immediately following execution of the swap contract with an executing broker. Thereafter, throughout the term of the cleared swap, the fund interfaces indirectly with the clearinghouse through a clearing broker and has counterparty risk to the clearing broker as well.

Amounts paid or received at the inception of uncleared swap agreements are presented parenthetically as premiums paid or received and reflected in the value of the uncleared swap in the Statement of Assets and Liabilities. Those premiums are amortized using the effective interest method over the term of the agreement as realized gain or loss on swap agreements in the Statement of Operations. The value of the uncleared swap agreements, which is adjusted daily and includes any related interest accruals to be paid or received by the fund, is recorded in the Statement of Assets and Liabilities as "Uncleared swaps, at value". The daily change in the value of uncleared swaps, including any related interest accruals to be paid or received, is recorded as unrealized appreciation or depreciation on swap agreements in the Statement of Operations. For cleared swaps, the daily change in valuation is recorded as a receivable or payable for variation margin in the Statement of Assets and Liabilities and reflected in unrealized appreciation or depreciation on swap agreements in the Statement of Operations. The periodic exchange of net cash payments, at specified intervals or upon the occurrence of specified events as stipulated by the agreement, is recorded as realized gain or loss on swap agreements in the Statement of Operations. A liquidation payment received or made upon early termination is recorded as a realized gain or loss on swap agreements in the Statement of Operations.

*Notes to Financial Statements – continued*

Risks related to swap agreements include the possible lack of a liquid market, unfavorable market and interest rate movements of the underlying instrument and the failure of the counterparty to perform under the terms of the agreements. The fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from/paid to the counterparty over the contract's remaining life, to the extent that the amount is positive. To address counterparty risk, uncleared swap agreements are limited to only highly-rated counterparties. Risk is further reduced by having an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund's exposure to the counterparty under such ISDA Master Agreement. The fund's counterparty risk due to cleared swaps is mitigated by the fact that the clearinghouse is the true counterparty to the transaction and the regulatory requirement safeguards in the event of a clearing broker bankruptcy.

The fund entered into credit default swap agreements in order to manage its exposure to the market or certain sectors of the market, to reduce its credit risk exposure to defaults of corporate and sovereign issuers or to create exposure to corporate or sovereign issuers to which it is not otherwise exposed. In a credit default swap agreement, the protection buyer can make an upfront payment and will make a stream of payments to the protection seller based on a fixed percentage applied to the agreement notional amount in exchange for the right to receive a specified return upon the occurrence of a defined credit event on the reference obligation (which may be either a single security or a basket of securities issued by corporate or sovereign issuers) and, with respect to the cases where physical settlement applies, the delivery by the buyer to the seller of a defined deliverable obligation. Although agreement-specific, credit events generally consist of a combination of the following: bankruptcy, failure to pay, restructuring, obligation acceleration, obligation default, or repudiation/moratorium, each as defined in the 2003 ISDA Credit Derivatives Definitions as amended by the relevant agreement. Restructuring is generally not applicable when the reference obligation is issued by a North American corporation and obligation acceleration, obligation default, or repudiation/moratorium are generally only applicable when the reference obligation is issued by a sovereign entity or an entity in an emerging country. Upon determination of the final price for the deliverable obligation (or upon delivery of the deliverable obligation in the case of physical settlement), the difference between the value of the deliverable obligation and the swap agreement's notional amount is recorded as realized gain or loss on swap agreements in the Statement of Operations.

Credit default swap agreements are considered to have credit-risk-related contingent features since they trigger payment by the protection seller to the protection buyer upon the occurrence of a defined credit event. The maximum amount of future, undiscounted payments that the fund, as protection seller, could be required to make is equal to the swap agreement's notional amount. The protection seller's payment obligation would be offset to the extent of the value of the agreement's deliverable obligation. At December 31, 2018, the fund did not hold any credit default swap agreements at an unrealized loss where it is the protection seller. The fund's maximum risk of loss from counterparty risk, either as the protection seller or as the protection buyer, is the fair value of the agreement.

**Security Loans** – Under its Securities Lending Agency Agreement with the fund, State Street Bank and Trust Company, as lending agent, loans the securities of the fund to certain qualified institutions (the "Borrowers") approved by the fund. Security loans can be terminated at the discretion of either the lending agent or the fund and the related securities must be returned within the earlier of the standard trade settlement period for such securities or within three business days. The loans are collateralized by cash and/or U.S. Treasury and federal agency obligations in an amount typically at least equal to the market value of the securities loaned. On loans collateralized by cash, the cash collateral is invested in a money market fund. The market value of the loaned securities is determined at the close of business of the fund and any additional required collateral is delivered to the fund on the next business day. The lending agent provides the fund with indemnification against Borrower default. In the event of Borrower default, the lending agent will, for the benefit of the fund, either purchase securities identical to those loaned or, when such purchase is commercially impracticable, pay the fund the market value of the loaned securities. In return, the lending agent assumes the fund's rights to the related collateral. If the collateral value is less than the cost to purchase identical securities, the lending agent is responsible for the shortfall, but only to the extent that such shortfall is not due to a decline in collateral value resulting from collateral reinvestment for which the fund bears the risk of loss. A portion of the income generated upon investment of the collateral is remitted to the Borrowers, and the remainder is allocated between the fund and the lending agent. On loans collateralized by U.S. Treasury and/or federal agency obligations, a fee is received from the Borrower, and is allocated between the fund and the lending agent. Income from securities lending is separately reported in the Statement of Operations. The dividend and interest income earned on the securities loaned is accounted for in the same manner as other dividend and interest income. At December 31, 2018, there were no securities on loan or collateral outstanding.

**Loans and Other Direct Debt Instruments** – The fund invests in loans and loan participations or other receivables. These investments may include standby financing commitments, including revolving credit facilities, which contractually obligate the fund to supply additional cash to the borrower on demand. The fund generally provides this financial support in order to preserve its existing investment or to obtain a more senior secured interest in the assets of the borrower. Loan participations involve a risk of insolvency of the lending bank or other financial intermediary.

**Indemnifications** – Under the fund’s organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund’s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

**Investment Transactions and Income** – Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. Dividends received in cash are recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded when the fund is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

**Tax Matters and Distributions** – The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund’s federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund’s tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements in accordance with the applicable foreign tax law. Foreign income taxes may be withheld by certain countries in which the fund invests. Additionally, capital gains realized by the fund on securities issued in or by certain foreign countries may be subject to capital gains tax imposed by those countries.

Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

Book/tax differences primarily relate to defaulted bonds, amortization and accretion of debt securities, and derivative transactions.

The tax character of distributions declared to shareholders for the last two fiscal years is as follows:

	Year ended 12/31/18	Year ended 12/31/17
Ordinary income (including any short-term capital gains)	\$1,829,013	\$2,356,097

The federal tax cost and the tax basis components of distributable earnings were as follows:

<b>As of 12/31/18</b>	
Cost of investments	\$45,108,126
Gross appreciation	145,738
Gross depreciation	(2,923,239)
Net unrealized appreciation (depreciation)	\$(2,777,501)
Undistributed ordinary income	1,557,309
Capital loss carryforwards	(881,148)
Other temporary differences	44,469

As of December 31, 2018, the fund had capital loss carryforwards available to offset future realized gains. These net capital losses may be carried forward indefinitely and their character is retained as short-term and/or long-term losses. Such losses are characterized as follows:

Short-Term	\$(330,666)
Long-Term	(550,482)
Total	\$(881,148)



**Multiple Classes of Shares of Beneficial Interest** – The fund offers multiple classes of shares, which differ in their respective distribution and/or service fees. The fund's income, realized and unrealized gain (loss), and common expenses are allocated to shareholders based on the daily net assets of each class. Dividends are declared separately for each class. Differences in per share dividend rates are generally due to differences in separate class expenses. The fund's distributions declared to shareholders as reported in the Statements of Changes in Net Assets are presented by class as follows:

	From net investment income	
	Year ended 12/31/18	Year ended 12/31/17
Initial Class	\$1,585,207	\$1,994,249
Service Class	243,806	361,848
Total	\$1,829,013	\$2,356,097

### (3) Transactions with Affiliates

**Investment Adviser** – The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. The management fee is computed daily and paid monthly at the following annual rates based on the fund's average daily net assets:

Up to \$1 billion	0.70%
In excess of \$1 billion	0.65%

MFS has agreed in writing to reduce its management fee by a specified amount if certain MFS mutual fund assets exceed thresholds agreed to by MFS and the fund's Board of Trustees. For the year ended December 31, 2018, this management fee reduction amounted to \$4,443, which is included in the reduction of total expenses in the Statement of Operations. The management fee incurred for the year ended December 31, 2018 was equivalent to an annual effective rate of 0.69% of the fund's average daily net assets.

The investment adviser has agreed in writing to pay a portion of the fund's total annual operating expenses, excluding interest, taxes, extraordinary expenses, brokerage and transaction costs, and investment-related expenses (such as fees and expenses associated with investments in investment companies and other similar investment vehicles), such that total annual operating expenses do not exceed 0.80% of average daily net assets for the Initial Class shares and 1.05% of average daily net assets for the Service Class shares. This written agreement will continue until modified by the fund's Board of Trustees, but such agreement will continue at least until April 30, 2020. For the year ended December 31, 2018, this reduction amounted to \$104,056, which is included in the reduction of total expenses in the Statement of Operations.

**Distributor** – MFS Fund Distributors, Inc. (MFD), a wholly-owned subsidiary of MFS, is the distributor of shares of the fund. The Trustees have adopted a distribution plan for the Service Class shares pursuant to Rule 12b-1 under the Investment Company Act of 1940.

The fund's distribution plan provides that the fund will pay MFD distribution and/or service fees equal to 0.25% per annum of its average daily net assets attributable to Service Class shares as partial consideration for services performed and expenses incurred by MFD and financial intermediaries (including participating insurance companies that invest in the fund to fund variable annuity and variable life insurance contracts, sponsors of qualified retirement and pension plans that invest in the fund, and affiliates of these participating insurance companies and plan sponsors) in connection with the sale and distribution of the Service Class shares. MFD may subsequently pay all, or a portion, of the distribution and/or service fees to financial intermediaries.

**Shareholder Servicing Agent** – MFS Service Center, Inc. (MFSC), a wholly-owned subsidiary of MFS, receives a fee from the fund for its services as shareholder servicing agent. For the year ended December 31, 2018, the fee was \$10,896, which equated to 0.0234% annually of the fund's average daily net assets. MFSC also receives payment from the fund for out-of-pocket expenses paid by MFSC on behalf of the fund. For the year ended December 31, 2018, these costs amounted to \$608.

**Administrator** – MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund is charged an annual fixed amount of \$17,500 plus a fee based on average daily net assets. The administrative services fee incurred for the year ended December 31, 2018 was equivalent to an annual effective rate of 0.0375% of the fund's average daily net assets.

**Trustees' and Officers' Compensation** – The fund pays compensation to independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The fund does not pay compensation directly to Trustees or officers of the fund who are also officers of the investment adviser, all of whom receive remuneration for their services to the fund from MFS. Certain officers and Trustees of the fund are officers or directors of MFS, MFD, and MFSC.

## MFS Strategic Income Portfolio

Notes to Financial Statements – continued

**Other** – This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended December 31, 2018, the fee paid by the fund under this agreement was \$80 and is included in “Miscellaneous” expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

The fund invests in the MFS Institutional Money Market Portfolio which is managed by MFS and seeks current income consistent with preservation of capital and liquidity. This money market fund does not pay a management fee to MFS.

The fund invests in the High Yield Pooled Portfolio, which is a mutual fund advised by MFS that does not pay management fees to MFS but does incur investment and operating costs. The fund invests in the High Yield Pooled Portfolio to gain exposure to high income debt instruments, rather than investing in high income debt instruments directly. The High Yield Pooled Portfolio does not pay a management fee to MFS or distribution and/or service fee to MFD.

### (4) Portfolio Securities

For the year ended December 31, 2018, purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows:

	Purchases	Sales
U.S. Government securities	\$5,140,932	\$7,686,975
Non-U.S. Government securities	\$21,673,782	\$24,055,730

### (5) Shares of Beneficial Interest

The fund’s Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. Transactions in fund shares were as follows:

	Year ended 12/31/18		Year ended 12/31/17	
	Shares	Amount	Shares	Amount
Shares sold				
Initial Class	273,324	\$2,588,388	288,818	\$2,862,544
Service Class	93,876	876,047	92,548	906,325
	367,200	\$3,464,435	381,366	\$3,768,869
Shares issued to shareholders in reinvestment of distributions				
Initial Class	170,087	\$1,585,207	204,329	\$1,994,249
Service Class	26,357	243,806	37,342	361,848
	196,444	\$1,829,013	241,671	\$2,356,097
Shares reacquired				
Initial Class	(639,667)	\$(6,059,623)	(730,440)	\$(7,253,077)
Service Class	(147,390)	(1,394,196)	(293,752)	(2,883,817)
	(787,057)	\$(7,453,819)	(1,024,192)	\$(10,136,894)
Net change				
Initial Class	(196,256)	\$(1,886,028)	(237,293)	\$(2,396,284)
Service Class	(27,157)	(274,343)	(163,862)	(1,615,644)
	(223,413)	\$(2,160,371)	(401,155)	\$(4,011,928)

### (6) Line of Credit

The fund and certain other funds managed by MFS participate in a \$1.25 billion unsecured committed line of credit, subject to a \$1 billion sublimit, provided by a syndication of banks under a credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, generally at a rate equal to the higher of the Overnight Bank Funding rate or daily one month LIBOR plus an agreed upon spread. A commitment fee, based on the average daily, unused portion of the committed line of credit, is allocated among the participating funds. In addition, the fund and other funds managed by MFS have established unsecured uncommitted borrowing arrangements with certain banks for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Overnight Bank Funding rate plus an agreed upon spread. For the year ended December 31, 2018, the fund’s commitment fee and interest expense were \$268 and \$0, respectively, and are included in “Miscellaneous” expense in the Statement of Operations.

Notes to Financial Statements – continued

**(7) Investments in Affiliated Issuers**

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be affiliated issuers:

Beginning Shares/Par Amount		Acquisitions Shares/Par Amount	Dispositions Shares/Par Amount	Ending Shares/Par Amount	
Affiliated Issuers					
MFS High Yield Pooled Portfolio		1,144,373	111,173	(530,159)	725,387
MFS Institutional Money Market Portfolio		1,509,122	19,948,296	(20,001,772)	1,455,646
		Change in Unrealized			
Affiliated Issuers	Realized Gain (Loss)	Appreciation/ Depreciation	Capital Gain Distributions	Dividend Income	Ending Value
MFS High Yield Pooled Portfolio	\$(410,613)	\$(305,809)	\$—	\$528,647	\$6,231,072
MFS Institutional Money Market Portfolio	(574)	18	—	13,847	1,455,501
	\$(411,187)	\$(305,791)	\$—	\$542,494	\$7,686,573

**(8) Legal Proceedings**

In May 2015, the Motors Liquidation Company Avoidance Action Trust (hereafter, "AAT") served upon the fund a complaint in an adversary proceeding in the U.S. Bankruptcy Court for the Southern District of New York, captioned *Motors Liquidation Company Avoidance Action Trust v. JPMorgan Chase Bank, N.A., et al.* (No. 09-00504 (REG)). The complaint, which was originally filed in 2009 but not served on the fund until 2015, names as defendants over 500 entities (including the fund) that held an interest in a \$1.5 billion General Motors (GM) term loan in 2009, when GM filed for bankruptcy. The AAT alleges that the fund and the other term loan lenders were improperly treated as secured lenders with respect to the term loan shortly before and immediately after GM's bankruptcy, receiving full principal and interest payments under the loan. The AAT alleges that the fund and other term loan lenders should have been treated as unsecured (or partially unsecured) creditors because the main lien securing the collateral was allegedly not perfected at the time of GM's bankruptcy due to an erroneous filing in October 2008 that terminated the financing statement perfecting the lien. The AAT seeks to claw back payments made to the fund and the other term loan lenders after, and during the 90 days before, GM's June 2009 bankruptcy petition. During that time period, the fund received term loan payments of approximately \$190,000. The fund cannot predict the outcome of this proceeding. Among other things, it is unclear whether the AAT's claims will succeed; what the fund would be entitled to as an unsecured (or partially unsecured) creditor, given the existence of other collateral not impacted by the erroneous October 2008 filing; whether third parties responsible for the erroneous October 2008 filing would bear some or all of any liability; and the degree to which the fund may be entitled to indemnification from a third party for any amount required to be disgorged. The fund has and will continue to incur legal expenses associated with the defense of this action and in related claims against third parties.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of MFS Variable Insurance Trust II and the Shareholders of  
MFS Strategic Income Portfolio:

### **Opinion on the Financial Statements and Financial Highlights**

We have audited the accompanying statement of assets and liabilities of MFS Strategic Income Portfolio (the “Fund”), including the portfolio of investments, as of December 31, 2018, the related statement 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, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, and the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

DELOITTE & TOUCHE LLP

Boston, Massachusetts  
February 15, 2019

We have served as the auditor of one or more of the MFS investment companies since 1924.

## TRUSTEES AND OFFICERS – IDENTIFICATION AND BACKGROUND

The Trustees and Officers of the Trust, as of February 1, 2019, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and Officer is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

<b>Name, Age</b>	<b>Position(s) Held with Fund</b>	<b>Trustee/Officer Since <sup>(h)</sup></b>	<b>Number of MFS Funds overseen by the Trustee</b>	<b>Principal Occupations During the Past Five Years</b>	<b>Other Directorships During the Past Five Years <sup>(i)</sup></b>
<b>INTERESTED TRUSTEES</b>					
Robert J. Manning <sup>(k)</sup> (age 55)	Trustee	February 2004	135	Massachusetts Financial Services Company, Executive Chairman (since January 2017); Director; Chairman of the Board; Chief Executive Officer (until 2015); Co-Chief Executive Officer (2015-2016)	N/A
Robin A. Stelmach <sup>(k)</sup> (age 57)	Trustee	January 2014	135	Massachusetts Financial Services Company, Vice Chair (since January 2017); Chief Operating Officer and Executive Vice President (until January 2017)	N/A
<b>INDEPENDENT TRUSTEES</b>					
John P. Kavanaugh (age 64)	Trustee and Chair of Trustees	January 2009	135	Private investor	N/A
Steven E. Buller (age 67)	Trustee	February 2014	135	Financial Accounting Standards Advisory Council, Chairman (2014-2015); Public Company Accounting Oversight Board, Standing Advisory Group, Member (until 2014); BlackRock, Inc. (investment management), Managing Director (until 2014), BlackRock Finco UK (investment management), Director (until 2014)	N/A
John A. Caroselli (age 64)	Trustee	March 2017	135	JC Global Advisors, LLC (management consulting), President (since 2015); First Capital Corporation (commercial finance), Executive Vice President (until 2015)	N/A
Maureen R. Goldfarb (age 63)	Trustee	January 2009	135	Private investor	N/A
Michael Hegarty (age 74)	Trustee	December 2004	135	Private investor	Rouse Properties Inc., Director (until 2016); Capmark Financial Group Inc., Director (until 2015)
Peter D. Jones (age 63)	Trustee	January 2019	135	Franklin Templeton Distributors, Inc. (investment management), President (until 2015); Franklin Templeton Institutional, LLC (investment management), Chairman (until 2015)	N/A
James W. Kilman, Jr. (age 57)	Trustee	January 2019	135	KielStrand Capital LLC (family office and merchant bank), Chief Executive Officer (since 2016); Morgan Stanley & Co. (financial services), Vice Chairman of Investment Banking, Co-Head of Diversified Financials Coverage – Financial Institutions Investment Banking Group (until 2016)	alpha-En Corporation, Director (since 2016)

## MFS Strategic Income Portfolio

Trustees and Officers – continued

<b>Name, Age</b>	<b>Position(s) Held with Fund</b>	<b>Trustee/Officer Since <sup>(h)</sup></b>	<b>Number of MFS Funds overseen by the Trustee</b>	<b>Principal Occupations During the Past Five Years</b>	<b>Other Directorships During the Past Five Years <sup>(i)</sup></b>
Clarence Otis, Jr. (age 62)	Trustee	March 2017	135	Darden Restaurants, Inc., Chief Executive Officer (until 2014)	VF Corporation, Director; Verizon Communications, Inc., Director; The Travelers Companies, Director; Federal Reserve Bank of Atlanta, Director (until 2015)
Maryanne L. Roepke (age 62)	Trustee	May 2014	135	American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014)	N/A
Laurie J. Thomsen (age 61)	Trustee	March 2005	135	Private investor	The Travelers Companies, Director; Dycor Industries, Inc., Director (since 2015)

<b>Name, Age</b>	<b>Position(s) Held with Fund</b>	<b>Trustee/Officer Since <sup>(h)</sup></b>	<b>Number of MFS Funds for which the Person is an Officer</b>	<b>Principal Occupations During the Past Five Years</b>
<b>OFFICERS</b>				
Christopher R. Bohane <sup>(k)</sup> (age 45)	Assistant Secretary and Assistant Clerk	July 2005	135	Massachusetts Financial Services Company, Vice President and Assistant General Counsel
Kino Clark <sup>(k)</sup> (age 50)	Assistant Treasurer	January 2012	135	Massachusetts Financial Services Company, Vice President
John W. Clark, Jr. <sup>(k)</sup> (age 51)	Assistant Treasurer	April 2017	135	Massachusetts Financial Services Company, Vice President (since March 2017); Deutsche Bank (financial services), Department Head – Treasurer's Office (until February 2017)
Thomas H. Connors <sup>(k)</sup> (age 59)	Assistant Secretary and Assistant Clerk	September 2012	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Ethan D. Corey <sup>(k)</sup> (age 55)	Assistant Secretary and Assistant Clerk	July 2005	135	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel
David L. DiLorenzo <sup>(k)</sup> (age 50)	President	July 2005	135	Massachusetts Financial Services Company, Senior Vice President
Heidi W. Hardin <sup>(k)</sup> (age 51)	Secretary and Clerk	April 2017	135	Massachusetts Financial Services Company, Executive Vice President and General Counsel (since March 2017); Harris Associates (investment management), General Counsel (from September 2015 to January 2017); Janus Capital Management LLC (investment management), Senior Vice President and General Counsel (until September 2015)
Brian E. Langenfeld <sup>(k)</sup> (age 45)	Assistant Secretary and Assistant Clerk	June 2006	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Amanda S. Mooradian <sup>(k)</sup> (age 39)	Assistant Secretary and Assistant Clerk	September 2018	135	Massachusetts Financial Services Company, Assistant Vice President and Counsel
Susan A. Pereira <sup>(k)</sup> (age 48)	Assistant Secretary and Assistant Clerk	July 2005	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Kasey L. Phillips <sup>(k)</sup> (age 48)	Assistant Treasurer	September 2012	135	Massachusetts Financial Services Company, Vice President
Matthew A. Stowe <sup>(k)</sup> (age 44)	Assistant Secretary and Assistant Clerk	October 2014	135	Massachusetts Financial Services Company, Vice President and Assistant General Counsel

*Trustees and Officers – continued*

<b>Name, Age</b>	<b>Position(s) Held with Fund</b>	<b>Trustee/Officer Since <sup>(h)</sup></b>	<b>Number of MFS Funds for which the Person is an Officer</b>	<b>Principal Occupations During the Past Five Years</b>
Frank L. Tarantino (age 74)	Independent Senior Officer	June 2004	135	Tarantino LLC (provider of compliance services), Principal
Richard S. Weitzel <sup>(k)</sup> (age 48)	Assistant Secretary and Assistant Clerk	October 2007	135	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel
Martin J. Wolin <sup>(k)</sup> (age 51)	Chief Compliance Officer	July 2015	135	Massachusetts Financial Services Company, Senior Vice President and Chief Compliance Officer (since July 2015); Mercer (financial service provider), Chief Risk and Compliance Officer, North America and Latin America (until June 2015)
James O. Yost <sup>(k)</sup> (age 58)	Treasurer	September 1990	135	Massachusetts Financial Services Company, Senior Vice President

(h) Date first appointed to serve as Trustee/officer of an MFS Fund. Each Trustee has served continuously since appointment unless indicated otherwise. For the period from December 15, 2004 until February 22, 2005, Mr. Manning served as Advisory Trustee. From January 2012 through December 2016, Messrs. DiLorenzo and Yost served as Treasurer and Deputy Treasurer of the Funds, respectively.

(j) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., “public companies”).

(k) “Interested person” of the Trust within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of a position with MFS. The address of MFS is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

Each Trustee has been elected by shareholders and each Trustee and officer holds office until his or her successor is chosen and qualified or until his or her earlier death, resignation, retirement or removal. The Trust does not hold annual meetings for the purpose of electing Trustees, and Trustees are not elected for fixed terms. Under the terms of the Board’s retirement policy, an Independent Trustee shall retire at the end of the calendar year in which he or she reaches the earlier of 75 years of age or 15 years of service on the Board (or, in the case of any Independent Trustee who joined the Board prior to 2015, 20 years of service on the Board).

Messrs. Buller, Hegarty, Kilman and Otis and Ms. Roepke are members of the Trust’s Audit Committee.

Each of the Interested Trustees and certain Officers hold comparable officer positions with certain affiliates of MFS.

The Statement of Additional Information for a Fund includes further information about the Trustees and is available without charge upon request by calling 1-800-225-2606.

**Investment Adviser**

Massachusetts Financial Services Company  
111 Huntington Avenue  
Boston, MA 02199-7618

**Distributor**

MFS Fund Distributors, Inc.  
111 Huntington Avenue  
Boston, MA 02199-7618

**Portfolio Manager(s)**

Neeraj Arora  
Philipp Burgener  
David Cole  
Alexander Mackey  
Joshua Marston  
Robert Persons  
Michael Skatrud

**Custodian**

State Street Bank and Trust Company  
1 Lincoln Street  
Boston, MA 02111-2900

**Independent Registered Public Accounting Firm**

Deloitte & Touche LLP  
200 Berkeley Street  
Boston, MA 02116

## BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

The Investment Company Act of 1940 requires that both the full Board of Trustees and a majority of the non-interested (“independent”) Trustees, voting separately, annually approve the continuation of the Fund’s investment advisory agreement with MFS. The Trustees consider matters bearing on the Fund and its advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the independent Trustees met several times over the course of three months beginning in May and ending in July, 2018 (“contract review meetings”) for the specific purpose of considering whether to approve the continuation of the investment advisory agreement for the Fund and the other investment companies that the Board oversees (the “MFS Funds”). The independent Trustees were assisted in their evaluation of the Fund’s investment advisory agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from MFS during various contract review meetings. The independent Trustees were also assisted in this process by the MFS Funds’ Independent Senior Officer, a senior officer appointed by and reporting to the independent Trustees.

In connection with their deliberations regarding the continuation of the investment advisory agreement, the Trustees, including the independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The investment advisory agreement for the Fund was considered separately, although the Trustees also took into account the common interests of all MFS Funds in their review. As described below, the Trustees considered the nature, quality, and extent of the various investment advisory, administrative, and shareholder services performed by MFS under the existing investment advisory agreement and other arrangements with the Fund.

In connection with their contract review meetings, the Trustees received and relied upon materials that included, among other items: (i) information provided by Broadridge Financial Solutions, Inc. (“Broadridge”), an independent third party, on the investment performance of the Fund for various time periods ended December 31, 2017 and the investment performance of a group of funds with substantially similar investment classifications/objectives (the “Broadridge performance universe”), (ii) information provided by Broadridge on the Fund’s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Broadridge (the “Broadridge expense group”), (iii) information provided by MFS on the advisory fees of portfolios of other clients of MFS, including institutional separate accounts and other clients, (iv) information as to whether and to what extent applicable expense waivers, reimbursements or fee “breakpoints” are observed for the Fund, (v) information regarding MFS’ financial results and financial condition, including MFS’ and certain of its affiliates’ estimated profitability from services performed for the Fund and the MFS Funds as a whole, and compared to MFS’ institutional business, (vi) MFS’ views regarding the outlook for the mutual fund industry and the strategic business plans of MFS, (vii) descriptions of various functions performed by MFS for the Funds, such as compliance monitoring and portfolio trading practices, and (viii) information regarding the overall organization of MFS, including information about MFS’ senior management and other personnel providing investment advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Broadridge was not independently verified and the independent Trustees did not independently verify any information provided to them by MFS.

The Trustees’ conclusion as to the continuation of the investment advisory agreement was based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees’ deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the fee arrangements for the Fund and other MFS Funds are the result of years of review and discussion between the independent Trustees and MFS, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees’ conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years.

Based on information provided by Broadridge and MFS, the Trustees reviewed the Fund’s total return investment performance as well as the Broadridge performance universe over various time periods. The Trustees placed particular emphasis on the total return performance of the Fund’s Initial Class shares in comparison to the performance of funds in its Broadridge performance universe over the three-year period ended December 31, 2017, which the Trustees believed was a long enough period to reflect differing market conditions. The total return performance of the Fund’s Initial Class shares was in the 2nd quintile relative to the other funds in the universe for this three-year period (the 1st quintile being the best performers and the 5th quintile being the worst performers). The total return performance of the Fund’s Initial Class shares was in the 3rd quintile for the one-year period and the 2nd quintile for the five-year period ended December 31, 2017 relative to the Broadridge performance universe. Because of the passage of time, these performance results may differ from the performance results for more recent periods, including those shown elsewhere in this report.

In the course of their deliberations, the Trustees took into account information provided by MFS in connection with the contract review meetings, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund’s performance. After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that they were satisfied with MFS’ responses and efforts relating to investment performance.



*Board Review of Investment Advisory Agreement – continued*

In assessing the reasonableness of the Fund's advisory fee, the Trustees considered, among other information, the Fund's advisory fee and the total expense ratio of the Fund's Initial Class shares as a percentage of average daily net assets and the advisory fee and total expense ratios of peer groups of funds based on information provided by Broadridge. The Trustees considered that MFS currently observes an expense limitation for the Fund, which may not be changed without the Trustees' approval. The Trustees also considered that, according to the data provided by Broadridge (which takes into account any fee reductions or expense limitations that were in effect during the Fund's last fiscal year), the Fund's effective advisory fee rate was approximately at the Broadridge expense group median and the Fund's total expense ratio was higher than the Broadridge expense group median.

The Trustees also considered the advisory fees charged by MFS to any institutional separate accounts advised by MFS ("separate accounts") and unaffiliated investment companies for which MFS serves as subadviser ("subadvised funds") that have comparable investment strategies to the Fund, if any. In comparing these fees, the Trustees considered information provided by MFS as to the generally broader scope of services provided by MFS to the Fund, as well as the more extensive regulatory burdens imposed on MFS in managing the Fund, in comparison to separate accounts and subadvised funds. The Trustees also considered the higher demands placed on MFS' investment personnel and trading infrastructure as a result of the daily cash in-flows and out-flows of the Fund in comparison to separate accounts.

The Trustees also considered whether the Fund may benefit from any economies of scale in the management of the Fund in the event of growth in assets of the Fund and/or growth in assets of the MFS Funds as a whole. They noted that the Fund's advisory fee rate schedule is subject to a contractual breakpoint that reduces the Fund's advisory fee rate on average daily net assets over \$1 billion. The Trustees also noted that MFS has agreed in writing to waive a portion of the management fees of certain MFS Funds, including the Fund, if the total combined assets of certain funds within the MFS Funds' complex increase above agreed upon thresholds (the "group fee waiver"), enabling the Fund's shareholders to share in the benefits from any economies of scale at the complex level. The group fee waiver is reviewed and renewed annually between the Board and MFS. The Trustees concluded that the breakpoint and the group fee waiver were sufficient to allow the Fund to benefit from economies of scale as its assets and overall complex assets grow.

The Trustees also considered information prepared by MFS relating to MFS' costs and profits with respect to the Fund, the MFS Funds considered as a group, and other investment companies and accounts advised by MFS, as well as MFS' methodologies used to determine and allocate its costs to the MFS Funds, the Fund and other accounts and products for purposes of estimating profitability.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that the advisory fees charged to the Fund represent reasonable compensation in light of the services being provided by MFS to the Fund.

In addition, the Trustees considered MFS' resources and related efforts to continue to retain, attract and motivate capable personnel to serve the Fund. The Trustees also considered current and developing conditions in the financial services industry, including the presence of large and well-capitalized companies which are spending, and appear to be prepared to continue to spend, substantial sums to engage personnel and to provide services to competing investment companies. In this regard, the Trustees also considered the financial resources of MFS and its ultimate parent, Sun Life Financial Inc. The Trustees also considered the advantages and possible disadvantages to the Fund of having an adviser that also serves other investment companies as well as other accounts.

The Trustees also considered the nature, quality, cost, and extent of administrative, transfer agency, and distribution services provided to the Fund by MFS and its affiliates under agreements and plans other than the investment advisory agreement, including any 12b-1 fees the Fund pays to MFS Fund Distributors, Inc., an affiliate of MFS. The Trustees also considered the nature, extent and quality of certain other services MFS performs or arranges for on the Fund's behalf, which may include securities lending programs, directed expense payment programs, class action recovery programs, and MFS' interaction with third-party service providers, principally custodians and sub-custodians. The Trustees concluded that the various non-advisory services provided by MFS and its affiliates on behalf of the Fund were satisfactory.

The Trustees considered so-called "fall-out benefits" to MFS such as reputational value derived from serving as investment manager to the MFS Funds. The Trustees also considered that, effective January 3, 2018, MFS had discontinued its historic practice of obtaining investment research from portfolio brokerage commissions paid by certain MFS Funds and would thereafter voluntarily reimburse a Fund, if applicable, for the costs of external research acquired through the use of the Fund's portfolio brokerage commissions.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board of Trustees, including the independent Trustees, concluded that the Fund's investment advisory agreement with MFS should be continued for an additional one-year period, commencing August 1, 2018.

## PROXY VOTING POLICIES AND INFORMATION

MFS votes proxies on behalf of the fund pursuant to proxy voting policies and procedures that are available without charge, upon request, by calling 1-800-225-2606, by visiting [mfs.com/proxyvoting](http://mfs.com/proxyvoting), or by visiting the SEC's Web site at <http://www.sec.gov>.

Information regarding how the fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year without charge by visiting [mfs.com/proxyvoting](http://mfs.com/proxyvoting), or by visiting the SEC's Web site at <http://www.sec.gov>.

## QUARTERLY PORTFOLIO DISCLOSURE

The fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov>. A shareholder can obtain the portfolio holdings report for the first and third quarters of the fund's fiscal year at [mfs.com/vit2](http://mfs.com/vit2) by choosing the fund's name and then selecting the "Resources" tab and clicking on "Prospectus and Reports".

## FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site ([mfs.com](http://mfs.com)). This information is available at <https://www.mfs.com/en-us/what-we-do/announcements.html> or at [mfs.com/vit2](http://mfs.com/vit2) by choosing the fund's name.

## INFORMATION ABOUT FUND CONTRACTS AND LEGAL CLAIMS

The fund has entered into contractual arrangements with an investment adviser, administrator, distributor, shareholder servicing agent, 529 program manager (if applicable), and custodian who each provide services to the fund. Unless expressly stated otherwise, shareholders are not parties to, or intended beneficiaries of these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the fund.

Under the Trust's By-Laws and Declaration of Trust, any claims asserted against or on behalf of the MFS Funds, including claims against Trustees and Officers, must be brought in state and federal courts located within the Commonwealth of Massachusetts.

# FACTS

## WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?



### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and account balances
- Account transactions and transaction history
- Checking account information and wire transfer instructions

When you are *no longer* our customer, we continue to share your information as described in this notice.

### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does MFS share?	Can you limit this sharing?
<b>For our everyday business purposes –</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes –</b> to offer our products and services to you	No	We don't share
<b>For joint marketing with other financial companies</b>	No	We don't share
<b>For our affiliates' everyday business purposes –</b> information about your transactions and experiences	No	We don't share
<b>For our affiliates' everyday business purposes –</b> information about your creditworthiness	No	We don't share
<b>For nonaffiliates to market to you</b>	No	We don't share

### Questions?

Call **800-225-2606** or go to **mfs.com**.

## Who we are

### Who is providing this notice?

MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., and MFS Heritage Trust Company.

## What we do

### How does MFS protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.

### How does MFS collect my personal information?

We collect your personal information, for example, when you

- open an account or provide account information
- direct us to buy securities or direct us to sell your securities
- make a wire transfer

We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.

### Why can't I limit all sharing?

Federal law gives you the right to limit only

- sharing for affiliates' everyday business purposes – information about your creditworthiness
- affiliates from using your information to market to you
- sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

## Definitions

### Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- *MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.*

### Nonaffiliates

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- *MFS does not share with nonaffiliates so they can market to you.*

### Joint marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- *MFS doesn't jointly market.*

## Other important information

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.





**OppenheimerFunds®**

The Right Way  
to Invest

*December 31, 2018*

Oppenheimer  
**Global Strategic Income Fund/VA**

A Series of Oppenheimer Variable Account Funds

**Annual Report**

**ANNUAL REPORT**

Listing of Top Holdings

Fund Performance Discussion

Financial Statements

**PORTFOLIO MANAGERS:** Hemant Baijal, Krishna Memani, Ruta Ziverte, and Chris Kelly, CFA

## AVERAGE ANNUAL TOTAL RETURNS FOR THE PERIODS ENDED 12/31/18

	Inception Date	1-Year	5-Year	10-Year
Non-Service Shares	5/3/93	-4.40%	1.70%	5.45%
Service Shares	3/19/01	-4.54	1.46	5.18
Bloomberg Barclays U.S. Aggregate Bond Index		0.01	2.52	3.48

**Performance data quoted represents past performance, which does not guarantee future results.** *The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, call us at 1.800.988.8287. The Fund's total returns should not be expected to be the same as the returns of other funds, whether or not both funds have the same portfolio managers and/or similar names. The Fund's total returns include changes in share price and reinvested distributions but do not include the charges associated with the separate account products that offer this Fund. Such performance would have been lower if such charges were taken into account. Returns for periods of less than one year are cumulative and not annualized. See Fund prospectuses and summary prospectuses for more information on share classes and sales charges.*

## TOP HOLDINGS AND ALLOCATIONS

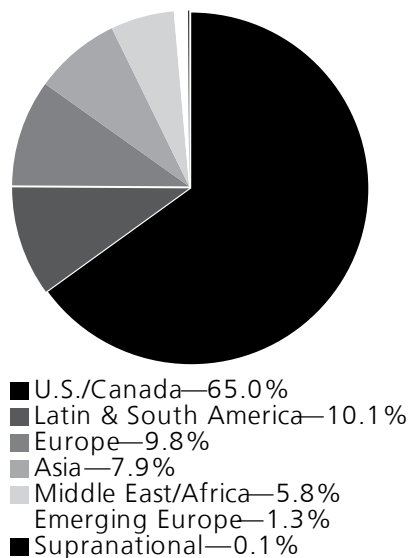
### PORTFOLIO ALLOCATION

Non-Convertible Corporate Bonds and Notes	37.4%
Investment Companies	
Eaton Vance Floating-Rate Income Trust	0.1
Oppenheimer Institutional Government Money Market Fund	4.5
Oppenheimer Limited-Term Bond Fund	0.4
Oppenheimer Master Event-Linked Bond Fund, LLC	1.9
Oppenheimer Master Loan Fund, LLC	9.2
Oppenheimer Ultra-Short Duration Fund	3.2
Mortgage-Backed Obligations	
Government Agency	11.8
Non-Agency	7.1
Foreign Government Obligations	18.2
Asset-Backed Securities	2.1
Preferred Stocks	1.2
Short-Term Notes	1.2
Structured Securities	0.5
Corporate Loans	0.4
Over-the-Counter Options Purchased	0.4
Over-the-Counter Interest Rate Swaptions Purchased	0.3
Common Stocks	0.1
Rights, Warrants and Certificates	—*

\* Represents a value of less than 0.05%.

Portfolio holdings and allocations are subject to change. Percentages are as of December 31, 2018, and are based on total market value of investments.

### REGIONAL ALLOCATION



Portfolio holdings and allocations are subject to change. Percentages are as of December 31, 2018, and are based on the total market value of investments.

# Fund Performance Discussion

The Fund's Non-Service shares produced a return of -4.40% during the reporting period, versus the 0.01% return provided by the Bloomberg Barclays U.S. Aggregate Bond Index (the "Index").

## MARKET OVERVIEW

Markets were volatile in 2018 and hit a wall in the last quarter of the year. Several shocks negatively affected market sentiment. The U.S. Federal Reserve (Fed) once again decided to hike interest rates in December 2018, as was nearly universally expected, but the post-meeting conference was more hawkish than expected.

Markets were expecting a clear message that the Fed might consider a pause in any future rate increases, but that was not initially communicated. Equity markets sold off, bonds rallied, and the U.S. dollar weakened. The sell-offs were sizable, which led some to think a recession might be imminent. It was not just the Fed making headlines; some key economic data was also weaker in December. In the U.S., economic indicators within regional surveys from the Fed and the Institute for Supply Management (ISM) sentiment surveys decreased markedly, along with a cool-off in housing. Politics were once again a factor because there was little clarity from the Trump administration about the policies for tariffs on Chinese imports, and the U.S. government shutdown did not help in an environment where the appetite for risk declined.

Global economic data continued to soften, but current projections still point to global growth for 2018 and 2019, remaining around its historical average. As we enter 2019, U.S. growth momentum may slow as the boost from fiscal stimulus fades toward the second half of the year, while the Eurozone and emerging market (EM) growth should stabilize by the second half of the year, a development that could reduce the momentum gap between the U.S. and the rest of the world.

In December, the European Central Bank (ECB) ended its quantitative easing (QE) program, as widely expected, despite weakening data in the Eurozone throughout the year. ECB President Mario Draghi continued to express confidence in the Eurozone outlook with trend growth above potential and strong Eurozone fundamentals, albeit weakened data, which may be temporary. Eurozone data weaknesses seem to have stabilized in the second half of the year. The underlying forces of growth in the Eurozone, such as job creation and income growth, a revival of bank lending, and high levels of confidence, are intact and growth for the region should remain in the 1.5%–2% range.

A slowing China, tightening financial conditions, and uncertainty about the U.S.-China trade dispute were strong headwinds for Asian emerging markets for most of 2018. Third-quarter figures for gross domestic product (GDP) growth highlighted the increasing divergence between the still-robust U.S. growth and the rest of the world's more moderate growth. Since then, the high-frequency indicators, such as Purchasing Managers' Index (PMI) data and export numbers from Asia, point to continuing softer growth in the region, especially in China.

The emerging market economies of Latin America and select frontier African countries have seen lackluster growth, and uncertainties about global growth would prevent a meaningful appreciation in the growth cycle for these regions now. Nonetheless, we expect a growth recovery in Latin America for all countries, except for Mexico, where the U.S. slowdown, combined with uncertainties over Mexican government policy, will likely reduce growth in 2019. Growth in Latin America as a region is likely to double to 2% from last year provided Argentina's economy stops contracting; in Argentina, we see the economic program on the right track. In Brazil, economic activity remains at a slow pace for now despite incipient signs of improvement, such as the widespread increase in consumer and business confidence indicators. We forecast a recovery toward 3% this year, assuming progress in the pension reform efforts now underway supports this more benign environment.

The U.S. economy continued to show strong growth momentum. As of the reporting period's end, the tracking of fourth-quarter GDP data suggests the economy will finish the year at around 3% GDP growth. There are pockets of moderation, such as housing and investment expenditures that may have peaked in the second half of the year. Going forward, investment should continue to support growth. With increasingly less slack in the economy, strong profits, and the corporate tax cuts, the environment for investment is healthy. Consumers so far do not seem to be affected by market jitters and politics. At period end, early reports and anecdotes suggest that the holiday shopping period was good. Job growth is still strong, supporting both incomes and consumer confidence. Household finances are in good shape. If growth continues to be above trend, as expected, the Fed may resume its hiking cycle, but for the time being, this may be the time to take stock and observe the impact of the tightening delivered so far. In our view, it is most likely the case that the Fed has paused its rate increases and may not change rates for at least the next two to three of its Open Market Committee meetings.



## FUND REVIEW

The Fund's underperformance relative to the Index this reporting period was largely the result of its allocation to emerging market local debt and emerging market credit. Monetary tightening in the U.S., the stronger U.S. dollar, and global trade tensions continued to provide headwinds for emerging markets during the reporting period, and countries with severe macro imbalances and high foreign currency funding needs such as Argentina and Turkey suffered heavy pressure in August 2018. In Argentina, the response to the sharp sell-off in the currency was a revised International Monetary Fund (IMF) program increasing its size and the speed of disbursement, which we believe will alleviate market concerns over financing and help stabilize asset prices. In Turkey's case, the central bank hiked rates aggressively and the government announced a more realistic medium-term program with a tighter fiscal policy and steps to rebalance the economy. While emerging market local debt detracted for the overall period, performance improved in the fourth-quarter of 2018, which saw a transition from concerns over serial EM crises in Argentina and Turkey and key elections (Mexico and Brazil) to worries over a broader global growth slowdown, including the U.S., with weakening macroeconomic data, declining oil prices, and U.S.-China trade war tensions. The risk-off sentiment intensified in November and December, particularly in U.S. equities and high-yield credit, while emerging markets proved relatively resilient by comparison as expectations for Fed hikes in 2019 declined as the communication became more dovish.

The Fund's high yield exposure was another top detractor from performance this period, which underperformed, particularly over the volatile fourth quarter of 2018. High-yield bonds struggled in 2018 amid headwinds from rising rates, U.S.-China trade tensions, and underlying concerns surrounding "peak" earnings and the duration of the economic cycle.

Contributing positively to performance this reporting period was our exposure to leveraged loans. In sharp contrast to the first three quarters of 2018, the fourth quarter saw a dramatic shift in investor sentiment. Solid corporate fundamentals and strong technical demand helped drive stable and steady positive performance in the loan market for the first 9.5 months of 2018. However, in the fourth quarter, heightened volatility returned to the broad markets as a confluence of macro factors surfaced in concert. Despite a weak Q4, overall leveraged loan contribution to performance was a positive.

## STRATEGY & OUTLOOK

We ended 2018 with increased financial market volatility, as tighter U.S. financial conditions combined with trade concerns negatively impacted the U.S. equity market. Expectations throughout the year shifted from expecting synchronized global growth to slowing global growth, with materially tighter financial conditions. During the period of heightened financial market volatility, however, emerging market assets did better relative to their developed market counterparts, as their correction had occurred earlier, particularly in the second and third quarters.

From an asset valuation perspective, EM assets are still undervalued versus developed market assets, in our view. At period end, emerging market local bonds offer real yields that are at or close to 15-year highs when compared to developed market real yields. Similarly, emerging market currency levels remain attractive to us. In credit, we believe European financial subordinated debt offers value as do both emerging market hard currency sovereign debt and corporate debt. In our view, core European currency rates are on the expensive side of the spectrum versus the U.S. dollar.

**Investors should consider the Fund's investment objective, risks, charges and expenses carefully before investing. The Fund's prospectus and summary prospectus contain this and other information about the Fund, and may be obtained by asking your financial advisor or calling us at 1.800.988.8287. Read prospectuses and summary prospectuses carefully before investing.**

**Total returns include changes in share price and reinvestment of dividends and capital gains distributions in a hypothetical investment for the periods shown, but do not include the charges associated with the separate account products that offer this Fund.**

**The views in the Fund Performance Discussion represent the opinions of this Fund's portfolio managers and are not intended as investment advice or to predict or depict the performance of any investment. These views are as of the close of business on December 31, 2018, and are subject to change based on subsequent developments. The Fund's portfolio and strategies are subject to change.**

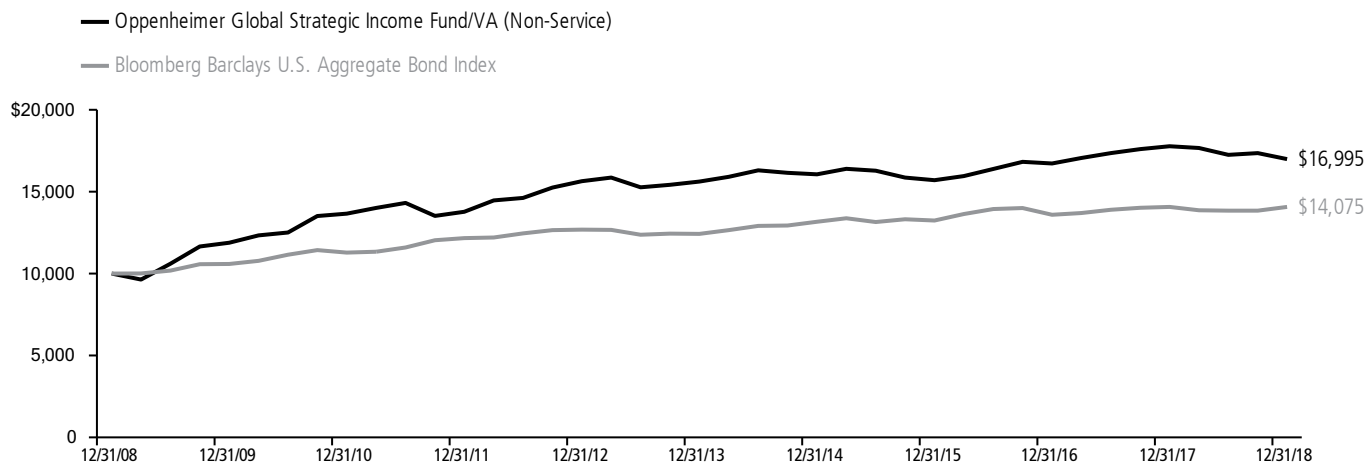
**Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.**

**Comparing the Fund's Performance to the Market.** The graphs that follow show the performance of a hypothetical \$10,000 investment in each share class of the Fund held until December 31, 2018. Performance is measured over a ten-fiscal-year period for both Classes. Performance information does not

reflect charges that apply to separate accounts investing in the Fund. If these charges were taken into account, performance would be lower. The graphs assume that all dividends and capital gains distributions were reinvested in additional shares.

The Fund's performance is compared to the performance of the Bloomberg Barclays U.S. Aggregate Bond Index, an index of U.S. Government and corporate bonds. The Index is unmanaged and cannot be purchased directly by investors. While index comparisons may be useful to provide a benchmark for the Fund's performance, it must be noted that the Fund's investments are not limited to the investments comprising the Index. Index performance includes reinvestment of income, but does not reflect transaction costs, fees, expenses or taxes. Index performance is shown for illustrative purposes only as a benchmark for the Fund's performance, and does not predict or depict performance of the Fund. The Fund's performance reflects the effects of the Fund's business and operating expenses.

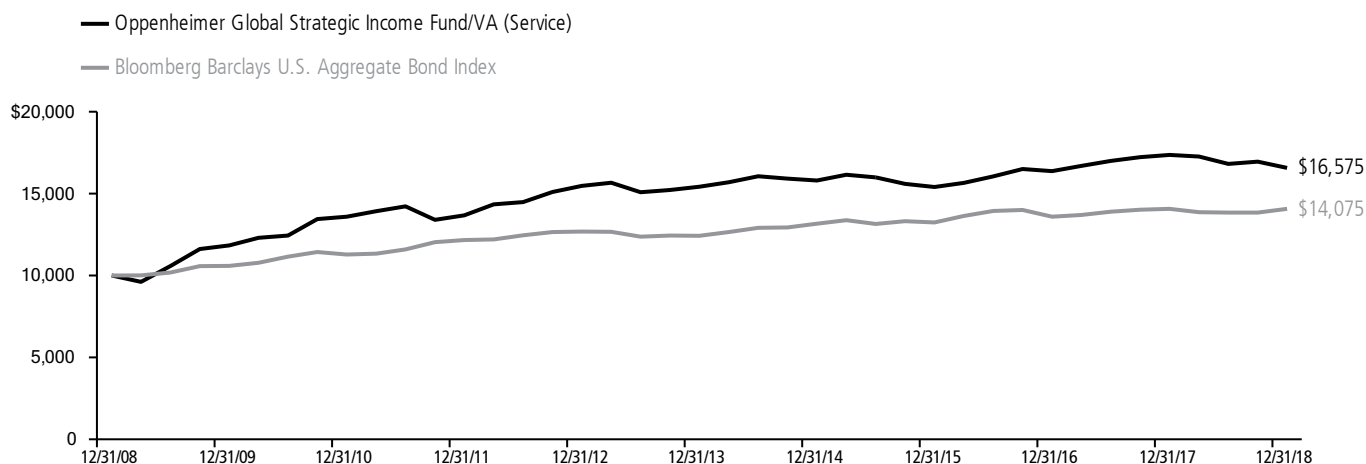
COMPARISON OF CHANGE IN VALUE OF \$10,000 HYPOTHETICAL INVESTMENTS IN:



Average Annual Total Returns of Non-Service Shares of the Fund at 12/31/18

1-Year **-4.40%** 5-Year **1.70%** 10-Year **5.45%**

COMPARISON OF CHANGE IN VALUE OF \$10,000 HYPOTHETICAL INVESTMENTS IN:



Average Annual Total Returns of Service Shares of the Fund at 12/31/18

1-Year **-4.54%** 5-Year **1.46%** 10-Year **5.18%**

**Performance data quoted represents past performance, which does not guarantee future results.** *The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, call us at 1.800.988.8287. The Fund's total returns should not be expected to be the same as the returns of other funds, whether or not both funds have the same portfolio managers and/or similar names. The Fund's total returns include changes in share price and reinvested distributions but do not include the charges associated with the separate account products that offer this Fund. Such performance would have been lower if such charges were taken into account.*

## Fund Expenses

**Fund Expenses.** As a shareholder of the Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and service fees; and other Fund expenses. These examples are intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The examples are based on an investment of \$1,000.00 invested at the beginning of the period and held for the entire 6-month period ended December 31, 2018.

**Actual Expenses.** The first section of the table provides information about actual account values and actual expenses. You may use the information in this section for the class of shares you hold, together with the amount you invested, to estimate the expense that you paid over the period. Simply divide your account value by \$1,000.00 (for example, an \$8,600.00 account value divided by \$1,000.00 = 8.60), then multiply the result by the number in the first section under the heading entitled “Expenses Paid During 6 Months Ended December 31, 2018” to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes.

The second section of the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio for each class of shares, and an assumed rate of return of 5% per year for each class before expenses, which is not the actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example for the class of shares you hold with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any charges associated with the separate accounts that offer this Fund. Therefore, the “hypothetical” lines of the table are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these separate account charges were included your costs would have been higher.

	Beginning Account Value July 1, 2018	Ending Account Value December 31, 2018	Expenses Paid During 6 Months Ended December 31, 2018
<b>Actual</b>			
Non-Service shares	\$ 1,000.00	\$ 985.20	\$ 4.16
Service shares	1,000.00	985.60	5.42
<b>Hypothetical</b> (5% return before expenses)			
Non-Service shares	1,000.00	1,021.02	4.24
Service shares	1,000.00	1,019.76	5.51

Expenses are equal to the Fund’s annualized expense ratio for that class, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Those annualized expense ratios, excluding indirect expenses from affiliated funds, based on the 6-month period ended December 31, 2018 are as follows:

Class	Expense Ratios
Non-Service shares	0.83%
Service shares	1.08

The expense ratios reflect voluntary and/or contractual waivers and/or reimbursements of expenses by the Fund’s Manager. Some of these undertakings may be modified or terminated at any time, as indicated in the Fund’s prospectus. The “Financial Highlights” tables in the Fund’s financial statements, included in this report, also show the gross expense ratios, without such waivers or reimbursements and reduction to custodian expenses, if applicable.

**CONSOLIDATED STATEMENT OF INVESTMENTS** December 31, 2018

	Principal Amount	Value
<b>Asset-Backed Securities—2.3%</b>		
American Credit Acceptance Receivables Trust:		
Series 2015-3, Cl. D, 5.86%, 7/12/22 <sup>1</sup>	\$ 275,000	\$ 276,258
Series 2017-3, Cl. B, 2.25%, 1/11/21 <sup>1</sup>	56,286	56,238
Series 2017-4, Cl. B, 2.61%, 5/10/21 <sup>1</sup>	180,000	179,733
Series 2017-4, Cl. C, 2.94%, 1/10/24 <sup>1</sup>	510,000	507,821
Series 2017-4, Cl. D, 3.57%, 1/10/24 <sup>1</sup>	673,000	669,158
AmeriCredit Automobile Receivables Trust:		
Series 2017-2, Cl. D, 3.42%, 4/18/23	830,000	829,077
Series 2017-4, Cl. D, 3.08%, 12/18/23	375,000	370,066
Cabela's Credit Card Master Note Trust:		
Series 2016-1, Cl. A1, 1.78%, 6/15/22	870,000	865,036
Series 2016-1, Cl. A2, 3.305% [US0001M+85], 6/15/22 <sup>2</sup>	1,690,000	1,694,786
Capital Auto Receivables Asset Trust,		
Series 2017-1, Cl. D, 3.15%, 2/20/25 <sup>1</sup>	110,000	109,760
CarMax Auto Owner Trust:		
Series 2015-2, Cl. D, 3.04%, 11/15/21	175,000	174,655
Series 2015-3, Cl. D, 3.27%, 3/15/22	610,000	609,304
Series 2016-1, Cl. D, 3.11%, 8/15/22	465,000	461,794
Series 2017-1, Cl. D, 3.43%, 7/17/23	630,000	629,865
Series 2017-4, Cl. D, 3.30%, 5/15/24	280,000	279,051
Series 2018-1, Cl. D, 3.37%, 7/15/24	195,000	192,865
CCG Receivables Trust:		
Series 2017-1, Cl. B, 2.75%, 11/14/23 <sup>1</sup>	635,000	627,307
Series 2018-1, Cl. B, 3.09%, 6/16/25 <sup>1</sup>	240,000	239,165
Series 2018-1, Cl. C, 3.42%, 6/16/25 <sup>1</sup>	70,000	69,758
CLG Auto Receivables Trust, Series 2017-1A, Cl. A, 2.71%, 5/15/23 <sup>1</sup>		
	163,633	162,668
CNH Equipment Trust, Series 2017-C, Cl. B, 2.54%, 5/15/25		
	185,000	182,726
CPS Auto Receivables Trust:		
Series 2017-C, Cl. A, 1.78%, 9/15/20 <sup>1</sup>	31,504	31,458
Series 2017-C, Cl. B, 2.30%, 7/15/21 <sup>1</sup>	275,000	273,764
Series 2017-D, Cl. B, 2.43%, 1/18/22 <sup>1</sup>	470,000	466,639
Series 2018-A, Cl. B, 2.77%, 4/18/22 <sup>1</sup>	370,000	367,104
CPS Auto Trust, Series 2017-A, Cl. B, 2.68%, 5/17/21 <sup>1</sup>		
	60,000	59,812
Credit Acceptance Auto Loan Trust:		
Series 2017-3A, Cl. C, 3.48%, 10/15/26 <sup>1</sup>	565,000	562,624
Series 2018-1A, Cl. B, 3.60%, 4/15/27 <sup>1</sup>	360,000	359,721
Series 2018-1A, Cl. C, 3.77%, 6/15/27 <sup>1</sup>	510,000	510,053
Dell Equipment Finance Trust, Series 2017-2, Cl. B, 2.47%, 10/24/22 <sup>1</sup>		
	190,000	188,368
Drive Auto Receivables Trust:		
Series 2015-BA, Cl. D, 3.84%, 7/15/21 <sup>1</sup>	31,273	31,320
Series 2016-CA, Cl. D, 4.18%, 3/15/24 <sup>1</sup>	430,000	432,306
Series 2017-3, Cl. C, 2.80%, 7/15/22	315,000	314,249
Series 2017-BA, Cl. D, 3.72%, 10/17/22 <sup>1</sup>	610,000	611,314
Series 2018-1, Cl. D, 3.81%, 5/15/24	470,000	470,991
Series 2018-3, Cl. D, 4.30%, 9/16/24	175,000	177,538
DT Auto Owner Trust:		
Series 2016-4A, Cl. E, 6.49%, 9/15/23 <sup>1</sup>	200,000	205,004
Series 2017-1A, Cl. D, 3.55%, 11/15/22 <sup>1</sup>	440,000	440,625
Series 2017-1A, Cl. E, 5.79%, 2/15/24 <sup>1</sup>	415,000	423,837
Series 2017-2A, Cl. D, 3.89%, 1/15/23 <sup>1</sup>	495,000	496,857
Series 2017-3A, Cl. E, 5.60%, 8/15/24 <sup>1</sup>	380,000	389,092
Series 2017-4A, Cl. D, 3.47%, 7/17/23 <sup>1</sup>	560,000	558,551
Series 2017-4A, Cl. E, 5.15%, 11/15/24 <sup>1</sup>	390,000	394,007
Series 2018-1A, Cl. B, 3.04%, 1/18/22 <sup>1</sup>	410,000	409,049
Element Rail Leasing I LLC, Series 2014-1A, Cl. A1, 2.299%, 4/19/44 <sup>1</sup>		
	136,372	135,267
Exeter Automobile Receivables Trust,		
Series 2018-1A, Cl. B, 2.75%, 4/15/22 <sup>1</sup>	405,000	403,151
Flagship Credit Auto Trust, Series 2016-1, Cl. C, 6.22%, 6/15/22 <sup>1</sup>		
	980,000	1,013,545
GLS Auto Receivables Trust, Series 2018-1A, Cl. A, 2.82%, 7/15/22 <sup>3</sup>		
	642,252	640,082

	Principal Amount	Value
<b>Asset-Backed Securities (Continued)</b>		
GM Financial Automobile Leasing Trust,		
Series 2017-3, Cl. C, 2.73%, 9/20/21	\$ 320,000	\$ 317,705
Navistar Financial Dealer Note Master Owner Trust II:		
Series 2017-1, Cl. C, 4.056% [US0001M+155], 6/27/22 <sup>1,2</sup>	160,000	160,392
Series 2017-1, Cl. D, 4.806% [US0001M+230], 6/27/22 <sup>1,2</sup>	185,000	185,186
Santander Drive Auto Receivables Trust:		
Series 2015-5, Cl. D, 3.65%, 12/15/21	915,000	917,215
Series 2016-2, Cl. D, 3.39%, 4/15/22	300,000	300,565
Series 2017-1, Cl. D, 3.17%, 4/17/23	440,000	438,738
Series 2017-1, Cl. E, 5.05%, 7/15/24 <sup>1</sup>	1,110,000	1,137,927
Series 2017-2, Cl. D, 3.49%, 7/17/23	190,000	189,092
Series 2017-3, Cl. D, 3.20%, 11/15/23	760,000	757,052
Series 2018-1, Cl. D, 3.32%, 3/15/24	290,000	288,180
Series 2018-2, Cl. D, 3.88%, 2/15/24	145,000	146,282
Santander Retail Auto Lease Trust, Series 2017-A, Cl. C, 2.96%, 11/21/22 <sup>1</sup>		
	505,000	501,788
TCF Auto Receivables Owner Trust, Series 2015-1A, Cl. D, 3.53%, 3/15/22 <sup>1</sup>		
	285,000	284,123
United Auto Credit Securitization Trust,		
Series 2018-1, Cl. C, 3.05%, 9/10/21 <sup>1</sup>	625,000	622,752
Veros Automobile Receivables Trust,		
Series 2017-1, Cl. A, 2.84%, 4/17/23 <sup>1</sup>	134,703	134,317
Westlake Automobile Receivables Trust:		
Series 2016-1A, Cl. E, 6.52%, 6/15/22 <sup>1</sup>	670,000	675,302
Series 2017-2A, Cl. E, 4.63%, 7/15/24 <sup>1</sup>	685,000	685,822
Series 2018-1A, Cl. C, 2.92%, 5/15/23 <sup>1</sup>	420,000	416,221
Series 2018-1A, Cl. D, 3.41%, 5/15/23 <sup>1</sup>	845,000	839,362
World Financial Network Credit Card Master Trust:		
Series 2012-D, Cl. A, 2.15%, 4/17/23	420,000	418,250
Series 2017-A, Cl. A, 2.12%, 3/15/24	1,125,000	1,110,081
Series 2017-C, Cl. A, 2.31%, 8/15/24	1,130,000	1,114,685
Series 2018-A, Cl. A, 3.07%, 12/16/24	1,440,000	1,436,482
Series 2018-C, Cl. A, 3.55%, 8/15/25	415,000	420,564
Total Asset-Backed Securities (Cost \$33,131,944)		33,051,502

**Mortgage-Backed Obligations—20.9%**
**Government Agency—13.1%**
**FHLMC/FNMA/FHLB/Sponsored—12.3%**

Federal Home Loan Mortgage Corp. Gold Pool:		
5.00%, 9/1/33	203,915	216,550
5.50%, 9/1/39	226,927	240,722
6.00%, 11/1/21	26,116	28,104
6.50%, 4/1/19-8/1/32	170,820	186,829
7.00%, 10/1/31-10/1/37	36,760	40,435
7.50%, 1/1/32	203,446	237,421
Federal Home Loan Mortgage Corp., Interest-Only Stripped Mtg.-Backed Security:		
Series 192, Cl. IO, 99.999%, 2/1/28 <sup>4</sup>	4,283	856
Series 205, Cl. IO, 58.037%, 9/1/29 <sup>4</sup>	24,466	5,121
Series 243, Cl. 6, 0.00%, 12/15/32 <sup>4,5</sup>	54,598	10,397
Federal Home Loan Mortgage Corp., Real Estate Mtg. Investment Conduit Multiclass		
Pass-Through Certificates:		
Series 1360, Cl. PZ, 7.50%, 9/15/22	160,003	168,380
Series 151, Cl. F, 9.00%, 5/15/21	959	979
Series 1674, Cl. Z, 6.75%, 2/15/24	80,243	84,820
Series 1897, Cl. K, 7.00%, 9/15/26	315,068	342,240
Series 2043, Cl. ZP, 6.50%, 4/15/28	131,809	145,320
Series 2106, Cl. FG, 2.905% [LIBOR01M+45], 12/15/28 <sup>2</sup>	229,426	230,029
Series 2122, Cl. F, 2.905% [LIBOR01M+45], 2/15/29 <sup>2</sup>	6,272	6,274
Series 2148, Cl. ZA, 6.00%, 4/15/29	130,652	141,575
Series 2195, Cl. LH, 6.50%, 10/15/29	92,361	101,100
Series 2326, Cl. ZP, 6.50%, 6/15/31	12,436	13,483
Series 2344, Cl. FP, 3.405% [LIBOR01M+95], 8/15/31 <sup>1</sup>	61,365	63,013
Series 2368, Cl. PR, 6.50%, 10/15/31	43,023	47,731

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>FHLMC/FNMA/FHLB/Sponsored (Continued)</b>		
Federal Home Loan Mortgage Corp., Real Estate Mtg. Investment Conduit Multiclass Pass-Through Certificates: (Continued)		
Series 2412, Cl. GF, 3.405% [LIBOR01M+95], 2/15/32 <sup>2</sup>	\$ 75,176	\$ 77,241
Series 2449, Cl. FL, 3.005% [LIBOR01M+55], 1/15/32 <sup>2</sup>	69,215	70,187
Series 2451, Cl. FD, 3.455% [LIBOR01M+100], 3/15/32 <sup>2</sup>	31,762	32,495
Series 2461, Cl. PZ, 6.50%, 6/15/32	156,706	171,145
Series 2464, Cl. FI, 3.455% [LIBOR01M+100], 2/15/32 <sup>2</sup>	29,343	30,027
Series 2470, Cl. AF, 3.455% [LIBOR01M+100], 3/15/32 <sup>2</sup>	54,495	56,071
Series 2470, Cl. LF, 3.455% [LIBOR01M+100], 2/15/32 <sup>2</sup>	30,028	30,729
Series 2477, Cl. FZ, 3.005% [LIBOR01M+55], 6/15/31 <sup>2</sup>	120,237	120,961
Series 2517, Cl. GF, 3.455% [LIBOR01M+100], 2/15/32 <sup>2</sup>	26,108	26,717
Series 2635, Cl. AG, 3.50%, 5/15/32	39,617	39,728
Series 2676, Cl. KY, 5.00%, 9/15/23	350,677	357,991
Series 2770, Cl. TW, 4.50%, 3/15/19	354	354
Series 3025, Cl. SJ, 15.748% [-3.667 x LIBOR01M+2,475], 8/15/35 <sup>2</sup>	74,581	106,592
Series 3815, Cl. BD, 3.00%, 10/15/20	17	17
Series 3848, Cl. WL, 4.00%, 4/15/40	94,329	95,293
Series 3857, Cl. GL, 3.00%, 5/15/40	4,651	4,705
Series 3917, Cl. BA, 4.00%, 6/15/38	55,120	56,287
Series 4221, Cl. HJ, 1.50%, 7/15/23	134,337	131,162
Federal Home Loan Mortgage Corp., Real Estate Mtg. Investment Conduit Multiclass Pass-Through Certificates, Interest-Only Stripped Mtg.-Backed Security:		
Series 2074, Cl. S, 99.999%, 7/17/28 <sup>4</sup>	5,888	554
Series 2079, Cl. S, 99.999%, 7/17/28 <sup>4</sup>	10,710	1,217
Series 2136, Cl. SG, 33.37%, 3/15/29 <sup>4</sup>	332,952	45,380
Series 2399, Cl. SG, 99.999%, 12/15/26 <sup>4</sup>	169,710	21,381
Series 2437, Cl. SB, 44.68%, 4/15/32 <sup>4</sup>	570,445	77,142
Series 2526, Cl. SE, 52.359%, 6/15/29 <sup>4</sup>	11,710	1,888
Series 2682, Cl. TQ, 99.999%, 10/15/33 <sup>4</sup>	125,164	18,604
Series 2795, Cl. SH, 56.469%, 3/15/24 <sup>4</sup>	200,778	12,430
Series 2920, Cl. S, 44.609%, 1/15/35 <sup>4</sup>	131,200	18,519
Series 2922, Cl. SE, 18.046%, 2/15/35 <sup>4</sup>	22,203	2,890
Series 2981, Cl. AS, 0.453%, 5/15/35 <sup>4</sup>	200,734	24,129
Series 2981, Cl. BS, 99.999%, 5/15/35 <sup>4</sup>	256,755	36,556
Series 3397, Cl. GS, 0.00%, 12/15/37 <sup>4,5</sup>	89,709	14,694
Series 3424, Cl. EI, 0.00%, 4/15/38 <sup>4,5</sup>	27,938	2,483
Series 3450, Cl. BI, 10.192%, 5/15/38 <sup>4</sup>	145,680	19,804
Series 3606, Cl. SN, 11.375%, 12/15/39 <sup>4</sup>	43,336	5,258
Series 3659, Cl. IE, 0.00%, 3/15/19 <sup>4,5</sup>	443	1
Federal National Mortgage Assn.:		
2.50%, 1/1/34 <sup>6</sup>	5,145,000	5,025,173
3.00%, 1/1/34-1/1/49 <sup>6</sup>	10,425,000	10,268,553
3.50%, 1/1/34-1/1/49 <sup>6</sup>	34,550,000	34,643,356
4.00%, 1/1/34-1/1/49 <sup>6</sup>	20,860,000	21,287,223
4.50%, 1/1/49 <sup>6</sup>	82,465,000	85,445,870
5.00%, 1/1/49 <sup>6</sup>	8,605,000	9,017,549
Federal National Mortgage Assn. Pool:		
5.00%, 7/1/19-7/1/33	232,305	245,982
5.50%, 4/1/21-5/1/36	129,379	138,106
6.50%, 12/1/29-1/1/34	376,627	418,637
7.00%, 1/1/30-6/1/34	481,993	544,890
7.50%, 2/1/27-3/1/33	644,083	742,957
8.50%, 7/1/32	484	490
Federal National Mortgage Assn., Interest-Only Stripped Mtg.-Backed Security:		
Series 214, Cl. 2, 99.999%, 3/25/23 <sup>4</sup>	55,311	5,867
Series 221, Cl. 2, 99.999%, 5/25/23 <sup>4</sup>	6,790	790
Series 254, Cl. 2, 99.999%, 1/25/24 <sup>4</sup>	117,319	15,685
Series 301, Cl. 2, 19.788%, 4/25/29 <sup>4</sup>	25,451	5,188
Series 313, Cl. 2, 99.999%, 6/25/31 <sup>4</sup>	268,093	60,608

	Principal Amount	Value
<b>FHLMC/FNMA/FHLB/Sponsored (Continued)</b>		
Federal National Mortgage Assn., Interest-Only Stripped Mtg.-Backed Security: (Continued)		
Series 319, Cl. 2, 1.114%, 2/25/32 <sup>4</sup>	\$ 127,824	\$ 28,572
Series 321, Cl. 2, 28.744%, 4/25/32 <sup>4</sup>	38,369	9,013
Series 324, Cl. 2, 0.00%, 7/25/32 <sup>4,5</sup>	37,998	8,861
Series 328, Cl. 2, 0.00%, 12/25/32 <sup>4,5</sup>	75,734	17,354
Series 331, Cl. 5, 2.464%, 2/25/33 <sup>4</sup>	145,154	25,916
Series 332, Cl. 2, 0.00%, 3/25/33 <sup>4,5</sup>	618,310	143,140
Series 334, Cl. 12, 0.00%, 3/25/33 <sup>4,5</sup>	118,066	24,856
Series 339, Cl. 15, 6.304%, 10/25/33 <sup>4</sup>	344,933	75,639
Series 345, Cl. 9, 0.00%, 1/25/34 <sup>4,5</sup>	109,562	24,796
Series 351, Cl. 10, 0.00%, 4/25/34 <sup>4,5</sup>	66,634	14,042
Series 351, Cl. 8, 0.00%, 4/25/34 <sup>4,5</sup>	120,574	23,554
Series 356, Cl. 10, 0.00%, 6/25/35 <sup>4,5</sup>	84,328	17,049
Series 356, Cl. 12, 0.00%, 2/25/35 <sup>4,5</sup>	41,622	9,002
Series 362, Cl. 13, 0.00%, 8/25/35 <sup>4,5</sup>	54,976	11,323
Federal National Mortgage Assn., Real Estate Mtg. Investment Conduit Multiclass Pass-Through Certificates:		
Series 1999-54, Cl. LH, 6.50%, 11/25/29	80,474	87,596
Series 2001-80, Cl. ZB, 6.00%, 1/25/32	67,920	72,751
Series 2002-29, Cl. F, 3.506% [LIBOR01M+100], 4/25/32 <sup>2</sup>	33,065	33,862
Series 2002-64, Cl. FJ, 3.506% [LIBOR01M+100], 4/25/32 <sup>2</sup>	10,182	10,427
Series 2002-68, Cl. FH, 2.955% [LIBOR01M+50], 10/18/32 <sup>2</sup>	22,275	22,375
Series 2002-84, Cl. FB, 3.506% [LIBOR01M+100], 12/25/32 <sup>2</sup>	141,353	144,894
Series 2002-90, Cl. FH, 3.006% [LIBOR01M+50], 9/25/32 <sup>2</sup>	79,087	79,397
Series 2003-11, Cl. FA, 3.506% [LIBOR01M+100], 9/25/32 <sup>2</sup>	141,356	144,077
Series 2003-116, Cl. FA, 2.906% [LIBOR01M+40], 11/25/33 <sup>2</sup>	14,565	14,581
Series 2004-25, Cl. PC, 5.50%, 1/25/34	2,134	2,134
Series 2005-109, Cl. AH, 5.50%, 12/25/25	494,729	507,976
Series 2005-31, Cl. PB, 5.50%, 4/25/35	560,000	613,088
Series 2005-71, Cl. DB, 4.50%, 8/25/25	69,269	70,161
Series 2006-11, Cl. PS, 15.377% [-3.667 x LIBOR01M+2,456.67], 3/25/36 <sup>2</sup>	72,310	103,934
Series 2006-46, Cl. SW, 15.01% [-3.667 x LIBOR01M+2,419.92], 6/25/36 <sup>2</sup>	109,315	151,246
Series 2008-75, Cl. DB, 4.50%, 9/25/23	133	133
Series 2009-113, Cl. DB, 3.00%, 12/25/20	6,316	6,287
Series 2009-36, Cl. FA, 3.446% [LIBOR01M+94], 6/25/37 <sup>2</sup>	18,007	18,416
Series 2009-70, Cl. TL, 4.00%, 8/25/19	223	223
Series 2010-43, Cl. KG, 3.00%, 1/25/21	6,999	6,986
Series 2011-122, Cl. EC, 1.50%, 1/25/20	3,959	3,924
Series 2011-15, Cl. DA, 4.00%, 3/25/41	43,058	43,444
Series 2011-3, Cl. EL, 3.00%, 5/25/20	6,148	6,125
Series 2011-3, Cl. KA, 5.00%, 4/25/40	120,181	125,271
Series 2011-38, Cl. AH, 2.75%, 5/25/20	5	5
Series 2011-6, Cl. BA, 2.75%, 6/25/20	3,350	3,366
Series 2011-82, Cl. AD, 4.00%, 8/25/26	26,553	26,497
Series 2012-20, Cl. FD, 2.906% [LIBOR01M+40], 3/25/42 <sup>2</sup>	175,120	175,239
Federal National Mortgage Assn., Real Estate Mtg. Investment Conduit Multiclass Pass-Through Certificates, Interest-Only Stripped Mtg.-Backed Security:		
Series 2001-61, Cl. SH, 35.04%, 11/18/31 <sup>4</sup>	36,317	6,050
Series 2001-63, Cl. SD, 47.484%, 12/18/31 <sup>4</sup>	9,335	1,384
Series 2001-68, Cl. SC, 39.467%, 11/25/31 <sup>4</sup>	6,771	1,058
Series 2001-81, Cl. S, 41.987%, 1/25/32 <sup>4</sup>	7,964	1,384

	Principal Amount	Value
<b>FHLMC/FNMA/FHLB/Sponsored (Continued)</b>		
Federal National Mortgage Assn., Real Estate Mtg. Investment Conduit Multiclass Pass-Through Certificates, Interest-Only Stripped Mtg.-Backed Security: (Continued)		
Series 2002-28, Cl. SA, 29.978%, 4/25/32 <sup>4</sup>	\$ 5,834	\$ 1,023
Series 2002-38, Cl. SO, 63.721%, 4/25/32 <sup>4</sup>	39,738	6,093
Series 2002-48, Cl. S, 35.381%, 7/25/32 <sup>4</sup>	8,622	1,642
Series 2002-52, Cl. SL, 28.049%, 9/25/32 <sup>4</sup>	5,862	1,068
Series 2002-56, Cl. SN, 36.479%, 7/25/32 <sup>4</sup>	11,848	2,257
Series 2002-77, Cl. IS, 51.864%, 12/18/32 <sup>4</sup>	67,702	11,692
Series 2002-77, Cl. SH, 37.95%, 12/18/32 <sup>4</sup>	11,234	1,796
Series 2002-9, Cl. MS, 27.535%, 3/25/32 <sup>4</sup>	10,683	2,013
Series 2003-13, Cl. IO, 48.938%, 3/25/33 <sup>4</sup>	117,536	27,636
Series 2003-26, Cl. DI, 53.764%, 4/25/33 <sup>4</sup>	94,534	24,168
Series 2003-33, Cl. SP, 28.697%, 5/25/33 <sup>4</sup>	63,730	12,277
Series 2003-4, Cl. S, 19.129%, 2/25/33 <sup>4</sup>	18,199	3,315
Series 2004-56, Cl. SE, 1.947%, 10/25/33 <sup>4</sup>	302,624	49,897
Series 2005-12, Cl. SC, 24.477%, 3/25/35 <sup>4</sup>	9,977	1,365
Series 2005-14, Cl. SE, 39.168%, 3/25/35 <sup>4</sup>	374,103	45,943
Series 2005-40, Cl. SA, 42.441%, 5/25/35 <sup>4</sup>	324,904	48,029
Series 2005-40, Cl. SB, 99.999%, 5/25/35 <sup>4</sup>	522,087	63,087
Series 2005-52, Cl. JH, 23.407%, 5/25/35 <sup>4</sup>	188,531	24,009
Series 2005-63, Cl. SA, 28.045%, 10/25/31 <sup>4</sup>	17,525	2,284
Series 2006-90, Cl. SX, 99.999%, 9/25/36 <sup>4</sup>	360,745	62,180
Series 2007-88, Cl. XI, 0.00%, 6/25/37 <sup>4,5</sup>	344,645	52,419
Series 2008-55, Cl. SA, 0.00%, 7/25/38 <sup>4,5</sup>	24,027	2,433
Series 2009-8, Cl. BS, 0.00%, 2/25/24 <sup>4,5</sup>	853	44
Series 2010-95, Cl. DI, 0.00%, 11/25/20 <sup>4,5</sup>	20,856	234
Series 2011-96, Cl. SA, 4.21%, 10/25/41 <sup>4</sup>	145,876	21,755
Series 2012-134, Cl. SA, 0.29%, 12/25/42 <sup>4</sup>	482,900	87,000
Series 2012-40, Cl. PI, 10.751%, 4/25/41 <sup>4</sup>	773,708	116,943
Federal National Mortgage Assn., Stripped Mtg.-Backed Security, Series 302, Cl. 2, 6.00%, 5/1/29	3	1 175,478,946

#### GNMA/Guaranteed—0.8%

Government National Mortgage Assn. I Pool:		
7.00%, 4/15/28-7/15/28	45,850	49,569
8.00%, 5/15/26	7,855	7,868
Government National Mortgage Assn. II Pool:		
3.125% [H15T1Y+150], 11/20/25 <sup>2</sup>	1,941	1,993
3.50%, 1/1/49 <sup>6</sup>	11,310,000	11,388,014
Government National Mortgage Assn., Interest-Only Stripped Mtg.-Backed Security:		
Series 2007-17, Cl. AI, 35.389%, 4/16/37 <sup>4</sup>	192,352	26,742

	Principal Amount	Value
<b>GNMA/Guaranteed (Continued)</b>		
Government National Mortgage Assn., Interest-Only Stripped Mtg.-Backed Security: (Continued)		
Series 2011-52, Cl. HS, 16.599%, 4/16/41 <sup>4</sup>	\$ 323,519	\$ 44,921 11,519,107
<b>Non-Agency—7.8%</b>		
<b>Commercial—3.5%</b>		
BCAP LLC Trust:		
Series 2011-R11, Cl. 18A5, 4.79% [H15T1Y+210], 9/26/35 <sup>1,2</sup>	23,532	23,589
Series 2012-RR6, Cl. RR6, 2.054%, 11/26/36 <sup>1</sup>	27,427	27,354
Benchmark Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates,		
Series 2018-B1, Cl. XA, 0.00%, 1/15/51 <sup>4,5</sup>	5,737,781	211,785
CD Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2017-		
CD6, Cl. XA, 0.00%, 11/13/50 <sup>4,5</sup>	2,308,758	133,894
Chase Mortgage Finance Trust, Series 2005-		
A2, Cl. 1A3, 4.032%, 1/25/36 <sup>7</sup>	11,290	10,666
Citigroup Commercial Mortgage Trust:		
Series 2012-GC8, Cl. AAB, 2.608%, 9/10/45	243,633	241,747
Series 2014-GC21, Cl. AAB, 3.477%, 5/10/47	270,000	273,847
Citigroup Commercial Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2017-C4, Cl. XA, 11.937%, 10/12/50 <sup>4</sup>		
	6,126,835	424,562
COMM Mortgage Trust:		
Series 2013-CR6, Cl. AM, 3.147%, 3/10/46 <sup>1</sup>	960,000	949,443
Series 2014-CR17, Cl. ASB, 3.598%, 5/10/47	870,000	883,355
Series 2014-CR20, Cl. ASB, 3.305%, 11/10/47	180,000	181,843
Series 2014-CR21, Cl. AM, 3.987%, 12/10/47	25,000	25,311
Series 2014-LC15, Cl. AM, 4.198%, 4/10/47	455,000	469,160
Series 2014-UBS6, Cl. AM, 4.048%, 12/10/47	1,600,000	1,609,895
Series 2015-CR22, Cl. A2, 2.856%, 3/10/48	305,000	304,182
COMM Mortgage Trust, Interest-Only Stripped Mtg.-Backed Security, Series 2012-CR5, Cl. XA, 0.00%, 12/10/45 <sup>4,5</sup>		
	2,559,184	128,423
Deutsche Alt-B Securities, Inc. Mortgage Loan Trust, Series 2006-AB2, Cl. A1, 5.307%, 6/25/36 <sup>7</sup>		
	45,760	42,985
Deutsche Mortgage Securities, Inc., Series 2013-RS1, Cl. 1A2, 2.69% [US0001M+22], 7/22/36 <sup>1,2</sup>		
	5,060,144	4,911,038
FREMF Mortgage Trust:		
Series 2012-K20, Cl. C, 3.87%, 5/25/45 <sup>1,7</sup>	4,165,000	4,138,571
Series 2013-K25, Cl. C, 3.619%, 11/25/45 <sup>1,7</sup>	135,000	132,738
Series 2013-K26, Cl. C, 3.598%, 12/25/45 <sup>1,7</sup>	95,000	93,307
Series 2013-K27, Cl. C, 3.496%, 1/25/46 <sup>1,7</sup>	1,460,000	1,427,730
Series 2013-K28, Cl. C, 3.49%, 6/25/46 <sup>1,7</sup>	2,330,000	2,276,908
Series 2013-K29, Cl. C, 3.481%, 5/25/46 <sup>1,7</sup>	2,300,000	2,211,665
Series 2013-K713, Cl. C, 3.154%, 4/25/46 <sup>1,7</sup>	535,000	532,968

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Commercial (Continued)</b>		
FREM Mortgage Trust: (Continued)		
Series 2014-K714, Cl. C, 3.854%, 1/25/47 <sup>1,7</sup>	\$ 400,000	\$ 402,832
Series 2015-K44, Cl. B, 3.683%, 1/25/48 <sup>1,7</sup>	2,310,000	2,255,272
Series 2015-K45, Cl. B, 3.591%, 4/25/48 <sup>1,7</sup>	4,646,000	4,517,326
Series 2017-K62, Cl. B, 3.875%, 1/25/50 <sup>1,7</sup>	280,000	271,794
Series 2017-K724, Cl. B, 3.487%, 11/25/23 <sup>1,7</sup>	1,535,000	1,524,082
GS Mortgage Securities Corp. Trust, Series 2012-SHOP, Cl. A, 2.933%, 6/5/31 <sup>1</sup>	1,200,000	1,197,676
GS Mortgage Securities Trust:		
Series 2013-GC12, Cl. AAB, 2.678%, 6/10/46	83,598	82,753
Series 2013-GC16, Cl. AS, 4.649%, 11/10/46	160,000	168,756
Series 2014-GC18, Cl. AAB, 3.648%, 1/10/47	235,000	237,581
JP Morgan Chase Commercial Mortgage Securities Trust:		
Series 2012-C6, Cl. ASB, 3.144%, 5/15/45	335,820	334,730
Series 2012-LC9, Cl. A4, 2.611%, 12/15/47	28,642	28,559
Series 2013-C10, Cl. AS, 3.372%, 12/15/47	855,000	846,383
Series 2013-C16, Cl. AS, 4.517%, 12/15/46	820,000	848,767
Series 2013-LC11, Cl. AS, 3.216%, 4/15/46	235,000	230,763
Series 2014-C20, Cl. AS, 4.043%, 7/15/47	630,000	635,979
Series 2016-JP3, Cl. A2, 2.435%, 8/15/49	543,707	532,853
JP Morgan Mortgage Trust, Series 2007-A1, Cl. 5A1, 4.327%, 7/25/35 <sup>7</sup>	45,630	46,870
JP Morgan Resecuritization Trust, Series 2009- 5, Cl. 1A2, 4.434%, 7/26/36 <sup>1,7</sup>	2,142,141	2,147,240
JPMBB Commercial Mortgage Securities Trust:		
Series 2013-C17, Cl. ASB, 3.705%, 1/15/47	194,016	196,191
Series 2014-C18, Cl. A3, 3.578%, 2/15/47	295,000	296,065
Series 2014-C19, Cl. ASB, 3.584%, 4/15/47	110,000	110,667
Series 2014-C24, Cl. B, 4.116%, 11/15/47 <sup>7</sup>	680,000	675,846
Series 2014-C25, Cl. AS, 4.065%, 11/15/47	1,720,000	1,735,519
Series 2014-C26, Cl. AS, 3.80%, 1/15/48	1,515,000	1,507,707
Morgan Stanley Bank of America Merrill Lynch Trust:		
Series 2013-C7, Cl. AAB, 2.469%, 2/15/46	235,732	232,947
Series 2013-C9, Cl. AS, 3.456%, 5/15/46	570,000	569,317
Series 2014-C14, Cl. B, 4.674%, 2/15/47 <sup>7</sup>	240,000	250,994
Morgan Stanley Capital I, Inc., Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2017-HR2, Cl. XA, 0.00%, 12/15/50 <sup>4,5</sup>		
	2,013,393	112,504
Morgan Stanley Re-Remic Trust, Series 2012- R3, Cl. 1A, 3.667%, 11/26/36 <sup>1,7</sup>		
	3,732	3,721
Morgan Stanley Resecuritization Trust, Series 2013-R9, Cl. 3A, 3.60%, 6/26/46 <sup>1,7</sup>		
	48,897	48,798
Structured Adjustable Rate Mortgage Loan Trust, Series 2004-10, Cl. 2A, 4.30%, 8/25/34 <sup>7</sup>		
	1,975,497	1,975,108
UBS Commercial Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2017-C5, Cl. XA, 0.00%, 11/15/50 <sup>4,5</sup>		
	3,813,212	239,800

	Principal Amount	Value
<b>Commercial (Continued)</b>		
UBS-Barclays Commercial Mortgage Trust, Series 2012-C2, Cl. E, 4.892%, 5/10/63 <sup>1,7</sup>		
	\$ 930,000	\$ 789,285
Wells Fargo Commercial Mortgage Trust, Series 2015-NXS1, Cl. ASB, 2.934%, 5/15/48		
	940,000	934,507
Wells Fargo Commercial Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2017-C42, Cl. XA, 0.00%, 12/15/50 <sup>4,5</sup>		
	2,798,996	178,245
WF-RBS Commercial Mortgage Trust:		
Series 2013-C14, Cl. AS, 3.488%, 6/15/46	640,000	638,532
Series 2014-C20, Cl. AS, 4.176%, 5/15/47	490,000	506,111
Series 2014-C22, Cl. A3, 3.528%, 9/15/57	120,000	121,197
Series 2014-LC14, Cl. AS, 4.351%, 3/15/47 <sup>7</sup>	395,000	401,756
WF-RBS Commercial Mortgage Trust, Interest-Only Commercial Mtg. Pass-Through Certificates, Series 2011-C3, Cl. XA, 0.00%, 3/15/44 <sup>1,4,5</sup>		
	3,024,070	75,828
		49,577,827
<b>Multi-Family—0.0%</b>		
Connecticut Avenue Securities, Series 2017- C04, Cl. 2M1, 3.356% [US0001M+85], 11/25/29 <sup>2</sup>		
	609,314	609,491
<b>Residential—4.3%</b>		
Banc of America Funding Trust, Series 2014- R7, Cl. 3A1, 4.607%, 3/26/36 <sup>1,7</sup>		
	23,669	23,741
Bear Stearns ARM Trust, Series 2006-1, Cl. A1, 4.91% [H15T1Y+225], 2/25/36 <sup>2</sup>		
	34,654	34,930
CHL Mortgage Pass-Through Trust:		
Series 2005-17, Cl. 1A8, 5.50%, 9/25/35	499,645	491,873
Series 2005-J4, Cl. A7, 5.50%, 11/25/35	480,061	478,679
Citigroup Mortgage Loan Trust, Inc.:		
Series 2005-2, Cl. 1A3, 4.439%, 5/25/35 <sup>7</sup>	545,383	548,955
Series 2006-AR1, Cl. 1A1, 4.28% [H15T1Y+240], 10/25/35 <sup>2</sup>	158,212	159,860
Series 2009-8, Cl. 7A2, 4.608%, 3/25/36 <sup>1,7</sup>	6,700,659	6,678,108
Series 2014-8, Cl. 1A2, 2.76% [US0001M+29], 7/20/36 <sup>1,2</sup>	3,400,000	3,337,075
Connecticut Avenue Securities:		
Series 2014-C03, Cl. 1M2, 5.506% [US0001M+300], 7/25/24 <sup>2</sup>	827,158	870,401
Series 2016-C03, Cl. 1M1, 4.506% [US0001M+200], 10/25/28 <sup>2</sup>	143,134	144,308
Series 2016-C07, Cl. 2M1, 3.806% [US0001M+130], 5/25/29 <sup>2</sup>	182,949	183,169
Series 2017-C01, Cl. 1M2, 6.056% [US0001M+355], 7/25/29 <sup>2</sup>	4,140,000	4,392,406
Series 2017-C02, Cl. 2M1, 3.656% [US0001M+115], 9/25/29 <sup>2</sup>	905,658	907,948
Series 2017-C03, Cl. 1M1, 3.456% [US0001M+95], 10/25/29 <sup>2</sup>	893,134	894,158
Series 2017-C06, Cl. 1M1, 3.256% [US0001M+75], 2/25/30 <sup>2</sup>	196,701	196,559
Series 2017-C07, Cl. 1M1, 3.156% [US0001M+65], 5/25/30 <sup>2</sup>	552,088	551,003
Series 2017-C07, Cl. 1M2, 4.906% [US0001M+240], 5/25/30 <sup>2</sup>	580,000	585,002
Series 2017-C07, Cl. 2M1, 3.156% [US0001M+65], 5/25/30 <sup>2</sup>	190,603	190,310
Series 2018-C01, Cl. 1M1, 3.106% [US0001M+60], 7/25/30 <sup>2</sup>	752,589	750,220
Series 2018-C02, Cl. 2M1, 3.156% [US0001M+65], 8/25/30 <sup>2</sup>	240,346	240,134

	Principal Amount	Value
<b>Residential (Continued)</b>		
CWHEQ Revolving Home Equity Loan Trust:		
Series 2005-G, Cl. 2A, 2.685% [US0001M+23], 12/15/35 <sup>2</sup>	\$ 22,139	\$ 21,798
Series 2006-H, Cl. 2A1A, 2.605% [US0001M+15], 11/15/36 <sup>2</sup>	18,012	13,888
GSR Mortgage Loan Trust, Series 2005-AR4, Cl. 6A1, 4.332%, 7/25/35 <sup>7</sup>	10,348	10,408
HomeBanc Mortgage Trust, Series 2005-3, Cl. A2, 2.816% [US0001M+31], 7/25/35 <sup>2</sup>	14,507	14,403
MASTR Asset Backed Securities Trust, Series 2006-WMC3, Cl. A3, 2.606% [US0001M+10], 8/25/36 <sup>2</sup>	849,280	419,043
RALI Trust, Series 2006-QS13, Cl. 1A8, 6.00%, 9/25/36	12,101	10,642
Residential Asset Securitization Trust, Series 2005-A6CB, Cl. A7, 6.00%, 6/25/35	1,721,608	1,577,710
Structured Agency Credit Risk Debt Nts.:		
Series 2013-DN2, Cl. M2, 6.756% [US0001M+425], 11/25/23 <sup>2</sup>	891,140	971,204
Series 2014-DN1, Cl. M3, 7.006% [US0001M+450], 2/25/24 <sup>2</sup>	815,000	914,712
Series 2014-DN2, Cl. M3, 6.106% [US0001M+360], 4/25/24 <sup>2</sup>	840,000	906,610
Series 2014-HQ2, Cl. M3, 6.256% [US0001M+375], 9/25/24 <sup>2</sup>	915,000	1,007,869
Series 2015-HQA2, Cl. M2, 5.306% [US0001M+280], 5/25/28 <sup>2</sup>	252,298	257,340
Series 2016-DNA1, Cl. M2, 5.406% [US0001M+290], 7/25/28 <sup>2</sup>	294,720	299,940
Series 2016-DNA3, Cl. M3, 7.506% [US0001M+500], 12/25/28 <sup>2</sup>	3,845,000	4,329,290
Series 2016-DNA4, Cl. M1, 3.306% [US0001M+80], 3/25/29 <sup>2</sup>	3,927	3,927
Series 2016-DNA4, Cl. M3, 6.306% [US0001M+380], 3/25/29 <sup>2</sup>	5,570,000	6,015,650
Series 2016-HQA3, Cl. M1, 3.306% [US0001M+80], 3/25/29 <sup>2</sup>	203,131	203,180
Series 2016-HQA3, Cl. M3, 6.356% [US0001M+385], 3/25/29 <sup>2</sup>	3,400,000	3,720,817
Series 2016-HQA4, Cl. M3, 6.406% [US0001M+390], 4/25/29 <sup>2</sup>	4,580,000	5,022,934
Series 2017-DNA1, Cl. M2, 5.756% [US0001M+325], 7/25/29 <sup>2</sup>	4,400,000	4,633,767
Series 2017-HQA1, Cl. M1, 3.706% [US0001M+120], 8/25/29 <sup>2</sup>	1,442,205	1,447,032
Series 2017-HQA2, Cl. M1, 3.306% [US0001M+80], 12/25/29 <sup>2</sup>	418,499	418,348
Series 2017-HQA3, Cl. M1, 3.056% [US0001M+55], 4/25/30 <sup>2</sup>	923,982	922,390
Series 2018-DNA1, Cl. M1, 2.956% [US0001M+45], 7/25/30 <sup>2</sup>	1,556,582	1,549,481
Series 2018-DNA1, Cl. M2, 4.306% [US0001M+180], 7/25/30 <sup>2</sup>	1,200,000	1,154,793
WaMu Mortgage Pass-Through Certificates Trust:		
Series 2003-AR10, Cl. A7, 4.487%, 10/25/33 <sup>7</sup>	53,444	54,129
Series 2005-AR16, Cl. 1A1, 4.28%, 12/25/35 <sup>7</sup>	7,552	7,554
Wells Fargo Mortgage-Backed Securities Trust:		
Series 2005-AR1, Cl. 1A1, 4.093%, 2/25/35 <sup>7</sup>	707,956	725,512
Series 2005-AR15, Cl. 1A2, 4.671%, 9/25/35 <sup>7</sup>	110,399	107,537
Series 2005-AR15, Cl. 1A6, 4.671%, 9/25/35 <sup>7</sup>	1,336,467	1,292,122
Series 2005-AR4, Cl. 2A2, 4.252%, 4/25/35 <sup>7</sup>	6,167	6,216
Series 2006-AR10, Cl. 1A1, 4.309%, 7/25/36 <sup>7</sup>	136,374	133,460

	Principal Amount	Value
<b>Residential (Continued)</b>		
Wells Fargo Mortgage-Backed Securities Trust: (Continued)		
Series 2006-AR10, Cl. 5A5, 4.434%, 7/25/36 <sup>7</sup>	\$ 242,520	\$ 242,426
Series 2006-AR2, Cl. 2A3, 4.607%, 3/25/36 <sup>7</sup>	1,146,954	1,160,799
Series 2006-AR7, Cl. 2A4, 4.334%, 5/25/36 <sup>7</sup>	642,475	658,216
		61,893,986
Total Mortgage-Backed Obligations (Cost \$294,155,463)		299,079,357

#### Foreign Government Obligations—20.2%

##### Angola—0.3%

Republic of Angola:			
8.25% Sr. Unsec. Nts., 5/9/28 <sup>1</sup>		850,000	802,744
9.375% Sr. Unsec. Nts., 5/8/48 <sup>1</sup>		4,290,000	4,028,010
			4,830,754

##### Argentina—1.3%

Argentine Republic:			
2.937% Unsec. Nts., 4/30/20 <sup>8</sup>	ARS	161,500,000	4,674,323
5.875% Sr. Unsec. Nts., 1/11/28		4,130,000	2,983,925
6.50% Sr. Unsec. Nts., 2/15/23 <sup>1</sup>		1,465,000	1,186,650
6.875% Sr. Unsec. Nts., 1/26/27		1,525,000	1,167,578
6.875% Sr. Unsec. Nts., 1/11/48		1,785,000	1,251,731
7.50% Sr. Unsec. Nts., 4/22/26		9,320,000	7,496,775
18.20% Unsec. Nts., 10/3/21	ARS	9,285,000	189,719
			18,950,701

##### Brazil—1.2%

Federative Republic of Brazil:			
10.00% Unsec. Nts., 1/1/21	BRL	11,000,000	2,968,655
10.00% Unsec. Nts., 1/1/25	BRL	26,900,000	7,239,582
10.00% Unsec. Nts., 1/1/27	BRL	11,500,000	3,102,110
18.447% Unsec. Nts., 5/15/45 <sup>16</sup>	BRL	4,350,000	4,065,014
			17,375,361

##### Chile—0.5%

Republic of Chile, 4.50% Bonds, 3/1/21	CLP	4,818,500,000	7,082,186
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##### Colombia—0.8%

Republic of Colombia:			
4.50% Sr. Unsec. Nts., 3/15/29		1,225,000	1,212,750
6.125% Sr. Unsec. Nts., 1/18/41		1,615,000	1,748,238
Series B, 6.25% Sr. Unsec. Nts., 11/26/25	COP	8,700,000,000	2,659,877
Series B, 7.50% Bonds, 8/26/26	COP	12,830,000,000	4,182,347
Series B, 10.00% Bonds, 7/24/24	COP	5,146,000,000	1,868,092
			11,671,304

##### Dominican Republic—0.6%

Dominican Republic:			
5.95% Sr. Unsec. Nts., 1/25/27 <sup>1</sup>		5,595,000	5,595,000
6.00% Sr. Unsec. Nts., 7/19/28 <sup>1</sup>		2,690,000	2,693,363
6.85% Sr. Unsec. Nts., 1/27/45 <sup>1</sup>		930,000	918,375
			9,206,738

##### Ecuador—0.2%

Republic of Ecuador:			
7.875% Sr. Unsec. Nts., 1/23/28 <sup>1</sup>		815,000	665,753
8.875% Sr. Unsec. Nts., 10/23/27 <sup>1</sup>		1,660,000	1,433,825
9.65% Sr. Unsec. Nts., 12/13/26 <sup>1</sup>		985,000	900,044
			2,999,622

##### Egypt—0.5%

Arab Republic of Egypt:			
4.75% Sr. Unsec. Nts., 4/16/26 <sup>1</sup>	EUR	1,900,000	1,982,086
6.125% Sr. Unsec. Nts., 1/31/22 <sup>1</sup>		965,000	948,800
6.588% Sr. Unsec. Nts., 2/21/28 <sup>1</sup>		1,445,000	1,293,275
7.903% Sr. Unsec. Nts., 2/21/48 <sup>1</sup>		625,000	540,095
8.50% Sr. Unsec. Nts., 1/31/47 <sup>1</sup>		1,450,000	1,313,759



# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

		Principal Amount	Value
<b>Egypt (Continued)</b>			
Arab Republic of Egypt: (Continued)			
Series 3YR, 16.00% Unsec. Nts., 12/12/20	EGP	29,000,000	\$ 1,540,234
			7,618,249
<b>Gabon—0.2%</b>			
Gabonese Republic, 6.375% Bonds, 12/12/24 <sup>1</sup>			
		2,410,000	2,171,868
<b>Ghana—0.2%</b>			
Republic of Ghana:			
7.625% Sr. Unsec. Nts., 5/16/29 <sup>1</sup>		2,420,000	2,176,064
8.627% Sr. Unsec. Nts., 6/16/49 <sup>1</sup>		1,440,000	1,260,173
			3,436,237
<b>Greece—2.2%</b>			
Hellenic Republic:			
0.000%Bonds, 10/15/42 <sup>7</sup>	EUR	30,230,000	106,852
3.375% Sr. Unsec. Nts., 2/15/25 <sup>1,9</sup>	EUR	5,070,000	5,623,084
3.90% Bonds, 1/30/33 <sup>9</sup>	EUR	17,660,000	18,461,107
4.00% Bonds, 1/30/37 <sup>9</sup>	EUR	7,215,000	7,294,179
			31,485,222
<b>Hungary—0.1%</b>			
Hungary:			
Series 25/B, 5.50% Bonds, 6/24/25	HUF	160,840,000	673,986
Series 27/A, 3.00% Bonds, 10/27/27	HUF	400,000,000	1,433,636
			2,107,622
<b>India—1.6%</b>			
Republic of India:			
7.59% Sr. Unsec. Nts., 1/11/26	INR	600,000,000	8,711,151
8.20% Sr. Unsec. Nts., 2/15/22	INR	600,000,000	8,811,805
8.20% Sr. Unsec. Nts., 9/24/25	INR	315,600,000	4,723,856
			22,246,812
<b>Indonesia—1.4%</b>			
Perusahaan Penerbit SBSN Indonesia III:			
4.35% Sr. Unsec. Nts., 9/10/24 <sup>1</sup>		525,000	523,031
4.55% Sr. Unsec. Nts., 3/29/26 <sup>1</sup>		790,000	785,260
Republic of Indonesia:			
3.85% Sr. Unsec. Nts., 7/18/27 <sup>1</sup>		905,000	861,385
4.125% Sr. Unsec. Nts., 1/15/25 <sup>1</sup>		490,000	483,353
8.125% Sr. Unsec. Nts., 5/15/24	IDR	35,000,000,000	2,478,599
Series FR56, 8.375% Sr. Unsec. Nts., 9/15/26	IDR	104,095,000,000	7,372,662
Series FR59, 7.00% Sr. Unsec. Nts., 5/15/27	IDR	10,000,000,000	650,209
Series FR74, 7.50% Sr. Unsec. Nts., 8/15/32	IDR	112,480,000,000	7,340,923
			20,495,422
<b>Iraq—0.1%</b>			
Republic of Iraq:			
5.80% Unsec. Nts., 1/15/28 <sup>1</sup>		615,000	553,131
6.752% Sr. Unsec. Nts., 3/9/23 <sup>1</sup>		800,000	763,918
			1,317,049
<b>Italy—0.6%</b>			
Italy Buoni Poliennali Del Tesoro, 1.45% Bonds, 11/15/24 <sup>9</sup>			
	EUR	7,070,000	7,841,554
<b>Kenya—0.0%</b>			
Republic of Kenya, 8.25% Sr. Unsec. Nts., 2/28/48 <sup>1</sup>			
		510,000	436,058
<b>Mexico—2.3%</b>			
United Mexican States:			
3.75% Sr. Unsec. Nts., 1/11/28		920,000	862,739
Series M, 5.75% Bonds, 3/5/26	MXN	54,445,000	2,343,032
Series M, 6.50% Bonds, 6/9/22	MXN	160,000,000	7,649,029
Series M, 8.00% Sr. Unsec. Nts., 12/7/23	MXN	340,000,000	16,899,004

		Principal Amount	Value
<b>Mexico (Continued)</b>			
United Mexican States: (Continued)			
Series M20, 8.50% Sr. Unsec. Nts., 5/31/29	MXN	90,000,000	\$ 4,507,018
			32,260,822
<b>Mongolia—0.1%</b>			
Development Bank of Mongolia LLC, 7.25% Unsec. Nts., 10/23/23 <sup>1</sup>			
		620,000	609,485
Mongolia, 5.625% Sr. Unsec. Nts., 5/1/23 <sup>1</sup>			
		1,455,000	1,382,325
			1,991,810
<b>Nigeria—0.3%</b>			
Federal Republic of Nigeria:			
7.143% Sr. Unsec. Nts., 2/23/30 <sup>1</sup>		1,570,000	1,393,438
7.696% Sr. Unsec. Nts., 2/23/38 <sup>1</sup>		1,610,000	1,410,235
9.248% Sr. Unsec. Nts., 1/21/49 <sup>1</sup>		1,060,000	1,032,198
			3,835,871
<b>Oman—0.2%</b>			
Sultanate of Oman, 6.75% Sr. Unsec. Nts., 1/17/48 <sup>1</sup>			
		3,185,000	2,636,811
<b>Peru—0.4%</b>			
Republic of Peru:			
5.70% Unsec. Nts., 8/12/24 <sup>1</sup>	PEN	5,345,000	1,645,529
5.94% Sr. Unsec. Nts., 2/12/29 <sup>1,9</sup>	PEN	2,800,000	843,209
6.15% Sr. Unsec. Nts., 8/12/32 <sup>1,9</sup>	PEN	4,370,000	1,322,178
6.35% Sr. Unsec. Nts., 8/12/28 <sup>1</sup>	PEN	7,140,000	2,223,873
			6,034,789
<b>Poland—0.5%</b>			
Republic of Poland, Series 0422, 2.25% Bonds, 4/25/22			
	PLN	23,800,000	6,447,410
<b>Russia—0.1%</b>			
Russian Federation, Series 6209, 7.60% Bonds, 7/20/22			
	RUB	66,585,000	944,174
<b>Senegal—0.1%</b>			
Republic of Senegal:			
6.25% Unsec. Nts., 5/23/33 <sup>1</sup>		460,000	397,460
6.75% Sr. Unsec. Nts., 3/13/48 <sup>1</sup>		835,000	695,033
			1,092,493
<b>South Africa—2.0%</b>			
Republic of South Africa:			
5.65% Sr. Unsec. Nts., 9/27/47		605,000	539,908
Series 2023, 7.75% Bonds, 2/28/23	ZAR	22,500,000	1,544,497
Series 2030, 8.00% Bonds, 1/31/30	ZAR	77,000,000	4,844,233
Series 2037, 8.50% Bonds, 1/31/37	ZAR	107,000,000	6,616,843
Series 2048, 8.75% Bonds, 2/28/48	ZAR	60,000,000	3,711,951
Series R186, 10.50% Bonds, 12/21/26	ZAR	131,675,000	9,958,639
Series R214, 6.50% Bonds, 2/28/41	ZAR	25,000,000	1,212,203
			28,428,274
<b>Sri Lanka—0.3%</b>			
Democratic Socialist Republic of Sri Lanka:			
5.75% Sr. Unsec. Nts., 4/18/23 <sup>1</sup>		1,450,000	1,341,525
5.875% Sr. Unsec. Nts., 7/25/22 <sup>1</sup>		1,350,000	1,269,231
6.25% Sr. Unsec. Nts., 10/4/20 <sup>1</sup>		465,000	453,398
6.75% Sr. Unsec. Nts., 4/18/28 <sup>1</sup>		950,000	867,545
			3,931,699
<b>Thailand—0.6%</b>			
Kingdom of Thailand:			
1.875% Sr. Unsec. Nts., 6/17/22	THB	65,400,000	2,000,577
2.125% Sr. Unsec. Nts., 12/17/26	THB	210,000,000	6,315,260
			8,315,837
<b>Turkey—0.7%</b>			
Republic of Turkey:			
7.25% Sr. Unsec. Nts., 12/23/23		1,825,000	1,878,755
10.60% Bonds, 2/11/26	TRY	5,000,000	735,002
10.70% Bonds, 2/17/21	TRY	22,045,000	3,611,340

		Principal Amount	Value
<b>Turkey (Continued)</b>			
Republic of Turkey: (Continued)			
11.00% Bonds, 2/24/27	TRY	4,750,000	\$ 698,252
12.40% Bonds, 3/8/28	TRY	17,500,000	2,775,036
			9,698,385

#### **Ukraine—0.8%**

Ukraine:			
7.75% Sr. Unsec. Nts., 9/1/23 <sup>9</sup>		2,050,000	1,848,844
7.75% Sr. Unsec. Nts., 9/1/24 <sup>9</sup>		1,295,000	1,142,085
7.75% Sr. Unsec. Nts., 9/1/25 <sup>9</sup>		900,000	781,573
7.75% Sr. Unsec. Nts., 9/1/26 <sup>9</sup>		2,940,000	2,512,303
7.75% Sr. Unsec. Nts., 9/1/27 <sup>9</sup>		2,720,000	2,306,370
8.994% Sr. Unsec. Nts., 2/1/24 <sup>1</sup>		1,565,000	1,464,071
9.75% Sr. Unsec. Nts., 11/1/28 <sup>1</sup>		730,000	686,065
			10,741,311

#### **Uruguay—0.0%**

Oriental Republic of Uruguay, 9.875%			
Sr. Unsec. Nts., 6/20/22 <sup>1</sup>	UYU	13,555,000	414,250
Total Foreign Government Obligations (Cost \$312,285,250)			288,046,695

#### **Corporate Loans—0.4%**

Albertson's LLC, Sr. Sec. Credit Facilities			
1st Lien Term Loan, Tranche B7, 5.522%			
[LIBOR4+300], 11/17/25 <sup>2</sup>		273,052	259,741
Aleris International, Inc., Sr. Sec. Credit			
Facilities 1st Lien Term Loan, 7.052%			
2/27/23 <sup>7</sup>		547,250	543,745
American Greetings Corp., Sr. Sec. Credit			
Facilities 1st Lien Term Loan, Tranche B,			
6.804% [LIBOR12+450], 4/6/24 <sup>2</sup>		587,050	578,978
Clear Channel Communications, Inc.,			
Extended Sr. Sec. Credit Facilities 1st			
Lien Term Loan, Tranche D, 9.095%			
[LIBOR4+675], 1/30/19 <sup>2,10</sup>		800,000	541,112
JC Penney Corp., Inc., Sr. Sec. Credit			
Facilities 1st Lien Term Loan, Tranche B,			
6.569% [LIBOR4+425], 6/23/23 <sup>2</sup>		384,740	330,300
KIK Custom Products, Inc., Sr. Sec. Credit			
Facilities 1st Lien Term Loan, Tranche B,			
6.522% 5/15/23 <sup>7</sup>		570,000	539,365
Monitronics International, Inc., Sr. Sec.			
Credit Facilities 1st Lien Term Loan,			
Tranche B2, 8.303% [LIBOR4+550],			
9/30/22 <sup>2</sup>		272,906	244,763
Murray Energy Corp., Sr. Sec. Credit			
Facilities 1st Lien Term Loan, Tranche B2,			
9.326% [LIBOR12+725], 10/17/22 <sup>2</sup>		1,575,063	1,342,741
Neiman Marcus Group Ltd. LLC, Sr. Sec.			
Credit Facilities 1st Lien Term Loan,			
5.568% [LIBOR12+325], 10/25/20 <sup>2</sup>		1,043,988	885,761
PetSmart, Inc., Sr. Sec. Credit Facilities			
1st Lien Term Loan, Tranche B, 5.32%			
[LIBOR12+300], 3/11/22 <sup>2</sup>		273,582	217,107
Windstream Services LLC, Sr. Sec. Credit			
Facilities 1st Lien Term Loan, Tranche B6,			
6.31% [LIBOR12+400], 3/29/21 <sup>2</sup>		306,086	274,712
Total Corporate Loans (Cost \$6,206,518)			5,758,325

#### **Corporate Bonds and Notes—41.4%**

##### **Consumer Discretionary—6.3%**

##### **Auto Components—0.2%**

American Axle & Manufacturing, Inc.,			
6.25% Sr. Unsec. Nts., 4/1/25		1,100,000	1,005,125
Cooper-Standard Automotive, Inc.,			
5.625% Sr. Unsec. Nts., 11/15/26 <sup>1</sup>		250,000	221,250
Dana Financing Luxembourg Sarl,			
6.50% Sr. Unsec. Nts., 6/1/26 <sup>1</sup>		705,000	679,444

		Principal Amount	Value
<b>Auto Components (Continued)</b>			
Goodyear Tire & Rubber Co. (The),			
5.00% Sr. Unsec. Nts., 5/31/26	\$	520,000	\$ 469,950
Grinding Media, Inc./Moly-Cop AltaSteel			
Ltd., 7.375% Sr. Sec. Nts., 12/15/23 <sup>1</sup>		345,000	335,512
Tenneco, Inc., 5.00% Sr. Unsec. Nts.,			
7/15/26		360,000	278,730
			2,990,011

##### **Automobiles—0.3%**

Ford Motor Credit Co. LLC, 5.75% Sr.			
Unsec. Nts., 2/1/21		1,460,000	1,489,726
General Motors Financial Co., Inc.,			
4.20% Sr. Unsec. Nts., 11/6/21		1,460,000	1,460,218
Jaguar Land Rover Automotive plc,			
4.50% Sr. Unsec. Nts., 10/1/27 <sup>1</sup>		690,000	517,500
Tesla, Inc., 5.30% Sr. Unsec. Nts.,			
8/15/25 <sup>1</sup>		570,000	497,325
Williams Scotsman International, Inc.,			
6.875% Sr. Sec. Nts., 8/15/23 <sup>3</sup>		560,000	539,000
			4,503,769

##### **Distributors—0.0%**

LKQ Corp., 4.75% Sr. Unsec. Nts.,			
5/15/23		387,000	369,585

##### **Diversified Consumer Services—0.1%**

Cengage Learning, Inc., 9.50% Sr.			
Unsec. Nts., 6/15/24 <sup>1</sup>		140,000	95,900
KCA Deutag UK Finance plc, 9.625% Sr.			
Sec. Nts., 4/1/23 <sup>1</sup>		275,000	222,750
Service Corp. International, 4.625% Sr.			
Unsec. Nts., 12/15/27		290,000	273,687
			592,337

##### **Entertainment—0.3%**

AMC Entertainment Holdings, Inc.:			
5.75% Sr. Sub. Nts., 6/15/25		705,000	623,044
5.875% Sr. Sub. Nts., 11/15/26		760,000	653,600
6.125% Sr. Sub. Nts., 5/15/27		520,000	447,200
Cinemark USA, Inc., 4.875% Sr. Unsec.			
Nts., 6/1/23		495,000	476,437
Lions Gate Capital Holdings LLC,			
5.875% Sr. Unsec. Nts., 11/1/24 <sup>1</sup>		1,215,000	1,205,887
Live Nation Entertainment, Inc., 5.625%			
Sr. Unsec. Nts., 3/15/26 <sup>1</sup>		550,000	539,000
Netflix, Inc., 5.875% Sr. Unsec. Nts.,			
11/15/28 <sup>1</sup>		275,000	268,656
Sirius XM Radio, Inc., 5.375% Sr. Unsec.			
Nts., 7/15/26 <sup>1</sup>		665,000	624,269
			4,838,093

##### **Hotels, Restaurants & Leisure—1.7%**

1011778 B.C. ULC/New Red Finance,			
Inc.:			
4.25% Sr. Sec. Nts., 5/15/24 <sup>1</sup>		785,000	724,798
5.00% Sec. Nts., 10/15/25 <sup>1</sup>		1,335,000	1,231,537
Aramark Services, Inc.:			
4.75% Sr. Unsec. Nts., 6/1/26		745,000	702,162
5.00% Sr. Unsec. Nts., 2/1/28 <sup>1</sup>		815,000	762,025
Boyd Gaming Corp.:			
6.00% Sr. Unsec. Nts., 8/15/26		690,000	647,737
6.375% Sr. Unsec. Nts., 4/1/26		220,000	213,675
Caesars Resort Collection LLC/CRC			
Finco, Inc., 5.25% Sr. Unsec. Nts.,			
10/15/25 <sup>1</sup>		820,000	707,250
CEC Entertainment, Inc., 8.00% Sr.			
Unsec. Nts., 2/15/22		670,000	589,600
Downstream Development Authority of			
the Quapaw Tribe of Oklahoma, 10.50%			
Sr. Sec. Nts., 2/15/23 <sup>1</sup>		330,000	326,700
Eldorado Resorts, Inc., 6.00% Sr. Unsec.			
Nts., 4/1/25		540,000	523,606

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Hotels, Restaurants &amp; Leisure (Continued)</b>		
Gateway Casinos & Entertainment Ltd., 8.25% Sec. Nts., 3/1/24 <sup>1</sup>	\$ 390,000	\$ 396,825
Golden Nugget, Inc.:		
6.75% Sr. Unsec. Nts., 10/15/24 <sup>3</sup>	1,370,000	1,294,650
8.75% Sr. Sub. Nts., 10/1/25 <sup>1</sup>	1,160,000	1,119,400
Hilton Domestic Operating Co., Inc.:		
4.25% Sr. Unsec. Nts., 9/1/24	425,000	402,687
5.125% Sr. Unsec. Nts., 5/1/26 <sup>1</sup>	550,000	529,375
Hilton Grand Vacations Borrower LLC/ Hilton Grand Vacations Borrower, Inc., 6.125% Sr. Unsec. Nts., 12/1/24	700,000	698,250
International Game Technology plc, 6.25% Sr. Sec. Nts., 2/15/22 <sup>1</sup>	1,130,000	1,138,475
IRB Holding Corp., 6.75% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>	270,000	236,925
KFC Holding Co./Pizza Hut Holdings LLC/ Taco Bell of America LLC:		
4.75% Sr. Unsec. Nts., 6/1/27 <sup>1</sup>	435,000	405,637
5.25% Sr. Unsec. Nts., 6/1/26 <sup>1</sup>	995,000	965,180
Marriott Ownership Resorts, Inc./ILG LLC, 6.50% Sr. Unsec. Nts., 9/15/26 <sup>1</sup>	280,000	271,250
Melco Resorts Finance Ltd., 4.875% Sr. Unsec. Nts., 6/6/25 <sup>1</sup>	1,230,000	1,132,537
MGM Growth Properties Operating Partnership LP/MGP Finance Co.-Issuer, Inc., 5.625% Sr. Unsec. Nts., 5/1/24	925,000	919,219
MGM Resorts International:		
5.75% Sr. Unsec. Nts., 6/15/25	510,000	494,700
6.00% Sr. Unsec. Nts., 3/15/23	855,000	861,412
6.625% Sr. Unsec. Nts., 12/15/21	405,000	416,137
Mohegan Gaming & Entertainment, 7.875% Sr. Unsec. Nts., 10/15/24 <sup>1</sup>	780,000	732,225
Penn National Gaming, Inc., 5.625% Sr. Unsec. Nts., 1/15/27 <sup>1</sup>	725,000	650,688
PF Chang's China Bistro, Inc., 10.25% Sr. Unsec. Nts., 6/30/20 <sup>1</sup>	875,000	805,000
Premier Cruises Ltd., 11.00% Sr. Unsec. Nts., 3/15/08 <sup>1,10,11</sup>	250,000	—
Scientific Games International, Inc.:		
5.00% Sr. Sec. Nts., 10/15/25 <sup>1</sup>	1,000,000	895,000
10.00% Sr. Unsec. Nts., 12/1/22	1,712,000	1,739,803
Six Flags Entertainment Corp., 4.875% Sr. Unsec. Nts., 7/31/24 <sup>1</sup>	500,000	472,500
Sugarhouse HSP Gaming Prop Mezz LP/ Sugarhouse HSP Gaming Finance Corp., 5.875% Sr. Sec. Nts., 5/15/25 <sup>1</sup>	285,000	267,188
Viking Cruises Ltd., 5.875% Sr. Unsec. Nts., 9/15/27 <sup>1</sup>	560,000	523,600
Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp.:		
5.25% Sr. Unsec. Nts., 5/15/27 <sup>1</sup>	390,000	343,688
5.50% Sr. Unsec. Nts., 3/1/25 <sup>1</sup>	275,000	257,125
Wynn Macau Ltd.:		
4.875% Sr. Unsec. Nts., 10/1/24 <sup>1</sup>	135,000	120,488
5.50% Sr. Unsec. Nts., 10/1/27 <sup>1</sup>	135,000	117,788
		24,636,842

<b>Household Durables—0.8%</b>		
Arcelik AS, 5.00% Sr. Unsec. Nts., 4/3/23 <sup>1</sup>	495,000	450,935
Beazer Homes USA, Inc.:		
5.875% Sr. Unsec. Nts., 10/15/27	935,000	743,325
6.75% Sr. Unsec. Nts., 3/15/25	1,680,000	1,451,100
7.25% Sr. Unsec. Nts., 2/1/23	43,000	40,205
KB Home, 7.625% Sr. Unsec. Nts., 5/15/23	430,000	437,525
Lennar Corp.:		
4.50% Sr. Unsec. Nts., 4/30/24	95,000	90,012
4.75% Sr. Unsec. Nts., 4/1/21	1,465,000	1,455,844

	Principal Amount	Value
<b>Household Durables (Continued)</b>		
Lennar Corp.: (Continued)		
4.75% Sr. Unsec. Nts., 5/30/25	\$ 840,000	\$ 790,650
M/I Homes, Inc., 5.625% Sr. Unsec. Nts., 8/1/25	795,000	731,400
MDC Holdings, Inc., 6.00% Sr. Unsec. Nts., 1/15/43	800,000	628,000
PulteGroup, Inc., 5.50% Sr. Unsec. Nts., 3/1/26	740,000	715,025
Resideo Funding, Inc., 6.125% Sr. Unsec. Nts., 11/1/26 <sup>1</sup>	855,000	844,312
Taylor Morrison Communities, Inc., 6.625% Sr. Unsec. Nts., 5/15/22	1,240,000	1,243,100
Taylor Morrison Communities, Inc./Taylor Morrison Holdings II, Inc., 5.875% Sr. Unsec. Nts., 4/15/23 <sup>1</sup>	560,000	543,200
Toll Brothers Finance Corp., 4.375% Sr. Unsec. Nts., 4/15/23	180,000	169,650
William Lyon Homes, Inc.:		
5.875% Sr. Unsec. Nts., 1/31/25	1,020,000	872,100
6.00% Sr. Unsec. Nts., 9/1/23	550,000	497,750
		11,704,133

<b>Leisure Equipment &amp; Products—0.0%</b>		
Mattel, Inc., 6.75% Sr. Unsec. Nts., 12/31/25 <sup>1</sup>	430,000	384,717

<b>Media—2.0%</b>		
Altice Financing SA:		
6.625% Sr. Sec. Nts., 2/15/23 <sup>1</sup>	205,000	197,312
7.50% Sr. Sec. Nts., 5/15/26 <sup>1</sup>	480,000	439,200
Altice Finco SA, 8.125% Sec. Nts., 1/15/24 <sup>1</sup>	695,000	649,825
Altice France SA:		
7.375% Sr. Sec. Nts., 5/1/26 <sup>1</sup>	580,000	533,600
8.125% Sr. Sec. Nts., 2/1/27 <sup>1</sup>	560,000	529,200
Altice Luxembourg SA, 7.75% Sr. Unsec. Nts., 5/15/22 <sup>1</sup>	205,000	187,319
AMC Networks, Inc.:		
4.75% Sr. Unsec. Nts., 8/1/25	530,000	482,300
5.00% Sr. Unsec. Nts., 4/1/24	275,000	261,250
Belo Corp., 7.75% Sr. Unsec. Nts., 6/1/27	1,362,000	1,416,480
Block Communications, Inc., 6.875% Sr. Unsec. Nts., 2/15/25 <sup>1</sup>	460,000	463,450
CCO Holdings LLC/CCO Holdings Capital Corp.:		
4.00% Sr. Unsec. Nts., 3/1/23 <sup>1</sup>	265,000	247,775
5.00% Sr. Unsec. Nts., 2/1/28 <sup>1</sup>	840,000	774,900
5.125% Sr. Unsec. Nts., 5/1/27 <sup>1</sup>	1,040,000	971,256
5.375% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>	205,000	197,056
5.75% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>	1,315,000	1,291,987
5.875% Sr. Unsec. Nts., 4/1/24 <sup>1</sup>	325,000	324,188
5.875% Sr. Unsec. Nts., 5/1/27 <sup>1</sup>	205,000	199,362
Clear Channel International BV, 8.75% Sr. Unsec. Nts., 12/15/20 <sup>3</sup>	265,000	268,312
Clear Channel Worldwide Holdings, Inc.:		
6.50% Sr. Unsec. Nts., Series B, 11/15/22	1,465,000	1,472,325
7.625% Sr. Sub. Nts., Series B, 3/15/20	1,505,000	1,473,019
CSC Holdings LLC:		
5.25% Sr. Unsec. Nts., 6/1/24	715,000	656,906
5.50% Sr. Sec. Nts., 5/15/26 <sup>1</sup>	205,000	193,725
5.50% Sr. Unsec. Nts., 4/15/27 <sup>1</sup>	750,000	699,375
10.875% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	722,000	812,553
DISH DBS Corp.:		
5.875% Sr. Unsec. Nts., 11/15/24	2,280,000	1,843,950
7.75% Sr. Unsec. Nts., 7/1/26	250,000	207,500
Gray Television, Inc.:		
5.125% Sr. Unsec. Nts., 10/15/24 <sup>1</sup>	760,000	702,620
5.875% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	1,370,000	1,280,676

	Principal Amount	Value
<b>Media (Continued)</b>		
iHeartCommunications, Inc., 9.00% Sr. Sec. Nts., 12/15/19	\$ 1,455,000	\$ 982,125
MDC Partners, Inc., 6.50% Sr. Unsec. Nts., 5/1/24 <sup>1</sup>	255,000	233,325
Meredith Corp., 6.875% Sr. Unsec. Nts., 2/1/26 <sup>1</sup>	250,000	245,000
Nexstar Broadcasting, Inc., 5.625% Sr. Unsec. Nts., 8/1/24 <sup>1</sup>	1,095,000	1,026,563
Salem Media Group, Inc., 6.75% Sr. Sec. Nts., 6/1/24 <sup>1</sup>	775,000	691,688
Sinclair Television Group, Inc., 5.625% Sr. Unsec. Nts., 8/1/24 <sup>1</sup>	715,000	672,100
TEGNA, Inc., 5.50% Sr. Unsec. Nts., 9/15/24 <sup>1</sup>	650,000	632,125
Townsquare Media, Inc., 6.50% Sr. Unsec. Nts., 4/1/23 <sup>1</sup>	265,000	244,794
Tribune Media Co., 5.875% Sr. Unsec. Nts., 7/15/22	725,000	732,250
Univision Communications, Inc.: 5.125% Sr. Sec. Nts., 5/15/23 <sup>1</sup>	245,000	220,500
5.125% Sr. Sec. Nts., 2/15/25 <sup>1</sup>	1,435,000	1,262,800
UPCB Finance IV Ltd., 5.375% Sr. Sec. Nts., 1/15/25 <sup>1</sup>	135,000	126,579
Virgin Media Secured Finance plc, 5.50% Sr. Sec. Nts., 8/15/26 <sup>1</sup>	705,000	653,782
Ziggo BV, 5.50% Sr. Sec. Nts., 1/15/27 <sup>1</sup>	1,590,000	1,427,025
		27,928,077
<b>Multiline Retail—0.1%</b>		
JC Penney Corp., Inc.: 5.875% Sr. Sec. Nts., 7/1/23 <sup>1</sup>	525,000	422,625
7.40% Sr. Unsec. Nts., 4/1/37	270,000	91,800
8.625% Sec. Nts., 3/15/25 <sup>1</sup>	865,000	467,100
Neiman Marcus Group Ltd. LLC, 8.00% Sr. Unsec. Nts., 10/15/21 <sup>1</sup>	280,000	116,900
		1,098,425
<b>Specialty Retail—0.7%</b>		
Claire's Stores, Inc., 9.00%, 3/15/19 <sup>10,12</sup>	405,000	255,604
Freedom Mortgage Corp.: 8.125% Sr. Unsec. Nts., 11/15/24 <sup>1</sup>	400,000	345,000
8.25% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	825,000	709,500
GameStop Corp.: 5.50% Sr. Unsec. Nts., 10/1/19 <sup>1</sup>	685,000	684,144
6.75% Sr. Unsec. Nts., 3/15/21 <sup>1</sup>	1,180,000	1,180,000
L Brands, Inc.: 5.25% Sr. Unsec. Nts., 2/1/28	270,000	231,187
6.875% Sr. Unsec. Nts., 11/1/35	1,775,000	1,491,355
Lithia Motors, Inc., 5.25% Sr. Unsec. Nts., 8/1/25 <sup>1</sup>	530,000	489,588
Party City Holdings, Inc., 6.625% Sr. Unsec. Nts., 8/1/26 <sup>1</sup>	560,000	511,000
PetSmart, Inc.: 5.875% Sr. Sec. Nts., 6/1/25 <sup>1</sup>	700,000	509,250
7.125% Sr. Unsec. Nts., 3/15/23 <sup>1</sup>	285,000	167,437
Sonic Automotive, Inc., 6.125% Sr. Sub. Nts., 3/15/27	650,000	572,000
Staples, Inc., 8.50% Sr. Unsec. Nts., 9/15/25 <sup>1</sup>	3,330,000	3,020,976
		10,167,041
<b>Textiles, Apparel &amp; Luxury Goods—0.1%</b>		
Hanesbrands, Inc.: 4.625% Sr. Unsec. Nts., 5/15/24 <sup>1</sup>	380,000	358,150
4.875% Sr. Unsec. Nts., 5/15/26 <sup>1</sup>	495,000	448,594
		806,744
<b>Consumer Staples—1.2%</b>		
<b>Beverages—0.0%</b>		
Coca-Cola Icecek AS, 4.215% Sr. Unsec. Nts., 9/19/24 <sup>1</sup>	445,000	417,757

	Principal Amount	Value
<b>Food &amp; Staples Retailing—0.4%</b>		
Albertsons Cos. LLC/Safeway, Inc./New Albertson LP/Albertson's LLC, 6.625% Sr. Unsec. Nts., 6/15/24	\$ 1,035,000	\$ 965,137
Fresh Market, Inc. (The), 9.75% Sr. Sec. Nts., 5/1/23 <sup>1</sup>	820,000	594,500
Ingles Markets, Inc., 5.75% Sr. Unsec. Nts., 6/15/23	688,000	682,840
New Albertsons LP, 7.45% Sr. Unsec. Nts., 8/1/29	740,000	595,700
Performance Food Group, Inc., 5.50% Sr. Unsec. Nts., 6/1/24 <sup>1</sup>	495,000	480,769
Rite Aid Corp., 6.125% Sr. Unsec. Nts., 4/1/23 <sup>1</sup>	1,345,000	1,067,594
Simmons Foods, Inc.: 5.75% Sec. Nts., 11/1/24 <sup>1</sup>	1,870,000	1,337,050
7.75% Sr. Sec. Nts., 1/15/24 <sup>1</sup>	275,000	277,750
		6,001,340
<b>Food Products—0.6%</b>		
B&G Foods, Inc., 5.25% Sr. Unsec. Nts., 4/1/25	260,000	242,775
BRF SA, 3.95% Sr. Unsec. Nts., 5/22/23 <sup>1</sup>	495,000	446,738
Dean Foods Co., 6.50% Sr. Unsec. Nts., 3/15/23 <sup>1</sup>	530,000	425,325
JBS USA LUX SA/JBS USA Finance, Inc.: 5.75% Sr. Unsec. Nts., 6/15/25 <sup>1</sup>	1,315,000	1,260,756
6.75% Sr. Unsec. Nts., 2/15/28 <sup>1</sup>	1,360,000	1,331,100
MARB BondCo plc, 6.875% Sr. Unsec. Nts., 1/19/25 <sup>1</sup>	510,000	474,241
MHP Lux SA, 6.95% Sr. Unsec. Nts., 4/3/26 <sup>1</sup>	485,000	419,331
Minerva Luxembourg SA, 6.50% Sr. Unsec. Nts., 9/20/26 <sup>1</sup>	1,905,000	1,781,194
Pilgrim's Pride Corp.: 5.75% Sr. Unsec. Nts., 3/15/25 <sup>1</sup>	860,000	810,550
5.875% Sr. Unsec. Nts., 9/30/27 <sup>1</sup>	265,000	241,150
Post Holdings, Inc.: 5.00% Sr. Unsec. Nts., 8/15/26 <sup>1</sup>	325,000	297,375
5.75% Sr. Unsec. Nts., 3/1/27 <sup>1</sup>	795,000	749,288
		8,479,823
<b>Household Products—0.1%</b>		
Kronos Acquisition Holdings, Inc., 9.00% Sr. Unsec. Nts., 8/15/23 <sup>1</sup>	645,000	496,650
Spectrum Brands, Inc., 6.125% Sr. Unsec. Nts., 12/15/24	280,000	270,900
		767,550
<b>Personal Products—0.1%</b>		
Avon International Operations, Inc., 7.875% Sr. Sec. Nts., 8/15/22 <sup>1</sup>	910,000	900,900
<b>Energy—6.3%</b>		
<b>Energy Equipment &amp; Services—1.5%</b>		
Basic Energy Services, Inc., 10.75% Sr. Sec. Nts., 10/15/23 <sup>1</sup>	285,000	246,525
Bristow Group, Inc.: 6.25% Sr. Unsec. Nts., 10/15/22	135,000	47,925
8.75% Sr. Sec. Nts., 3/1/23 <sup>1</sup>	455,000	327,600
Calfrac Holdings LP, 8.50% Sr. Unsec. Nts., 6/15/26 <sup>1</sup>	1,135,000	811,525
CGG Holding US, Inc., 9.00% Sr. Sec. Nts., 5/1/23 <sup>1</sup>	140,000	138,600
CSI Compressco LP/CSI Compressco Finance, Inc., 7.50% Sr. Sec. Nts., 4/1/25 <sup>1</sup>	285,000	266,475
Ensco plc: 5.20% Sr. Unsec. Nts., 3/15/25	685,000	458,950
7.75% Sr. Unsec. Nts., 2/1/26	135,000	100,575
Eterna Capital Pte Ltd.: 7.50% Sr. Sec. Nts., 12/11/22 <sup>9,13</sup>	794,395	775,518

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Energy Equipment &amp; Services (Continued)</b>		
Eterna Capital Pte Ltd.: (Continued)		
8.00% Sr. Sec. Nts., 12/11/22 <sup>13</sup>	\$ 2,912,870	\$ 2,607,517
Exterran Energy Solutions LP/EES Finance Corp., 8.125% Sr. Unsec. Nts., 5/1/25	260,000	250,250
Hi-Crush Partners LP, 9.50% Sr. Unsec. Nts., 8/1/26 <sup>1</sup>	420,000	310,800
KCA Deutag UK Finance plc, 7.25% Sr. Sec. Nts., 5/15/21 <sup>1</sup>	200,000	163,000
McDermott Technology Americas, Inc./McDermott Technology US, Inc., 10.625% Sr. Unsec. Nts., 5/1/24 <sup>1</sup>	2,935,000	2,487,412
Nabors Industries, Inc., 5.75% Sr. Unsec. Nts., 2/1/25	480,000	364,730
Nine Energy Service, Inc., 8.75% Sr. Unsec. Nts., 11/1/23 <sup>1</sup>	285,000	272,175
Noble Holding International Ltd., 7.875% Sr. Unsec. Nts., 2/1/26 <sup>1</sup>	540,000	462,375
Parker Drilling Co.:		
6.75% Sr. Unsec. Nts., 7/15/22	685,000	352,775
7.50% Sr. Unsec. Nts., 8/1/20	140,000	76,300
Pertamina Persero PT, 5.625% Sr. Unsec. Nts., 5/20/43 <sup>1</sup>	6,755,000	6,413,879
Pioneer Energy Services Corp., 6.125% Sr. Unsec. Nts., 3/15/22	1,655,000	1,017,825
Precision Drilling Corp., 7.125% Sr. Unsec. Nts., 1/15/26 <sup>1</sup>	330,000	285,450
Rowan Cos., Inc., 7.375% Sr. Unsec. Nts., 6/15/25	610,000	492,575
SESI LLC, 7.75% Sr. Unsec. Nts., 9/15/24	435,000	348,000
Tervita Escrow Corp., 7.625% Sec. Nts., 12/1/21 <sup>1</sup>	275,000	263,312
Transocean Pontus Ltd., 6.125% Sr. Sec. Nts., 8/1/25 <sup>1</sup>	275,000	266,750
Transocean, Inc.:		
7.50% Sr. Unsec. Nts., 1/15/26 <sup>1</sup>	265,000	233,863
9.00% Sr. Unsec. Nts., 7/15/23 <sup>1</sup>	995,000	993,756
Trinidad Drilling Ltd., 6.625% Sr. Unsec. Nts., 2/15/25 <sup>1</sup>	385,000	390,198
Unit Corp., 6.625% Sr. Sub. Nts., 5/15/21	135,000	123,525
Weatherford International Ltd., 9.875% Sr. Unsec. Nts., 2/15/24	1,572,000	974,640
		22,324,800

## **Oil, Gas & Consumable Fuels—4.8%**

Alta Mesa Holdings LP/Alta Mesa Finance Services Corp., 7.875% Sr. Unsec. Nts., 12/15/24	265,000	165,625
Ardagh Packaging Finance plc/Ardagh Holdings USA, Inc., 6.00% Sr. Unsec. Nts., 2/15/25 <sup>1</sup>	955,000	883,967
Ascent Resources Utica Holdings LLC/ ARU Finance Corp., 10.00% Sr. Unsec. Nts., 4/1/22 <sup>1</sup>	275,000	282,645
Baytex Energy Corp., 5.625% Sr. Unsec. Nts., 6/1/24 <sup>1</sup>	505,000	439,350
Berry Petroleum Co. LLC, 7.00% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>	135,000	122,175
Blue Racer Midstream LLC/Blue Racer Finance Corp., 6.625% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	550,000	514,250
California Resources Corp., 8.00% Sec. Nts., 12/15/22 <sup>1</sup>	658,000	447,440
Calumet Specialty Products Partners LP/ Calumet Finance Corp.:		
6.50% Sr. Unsec. Nts., 4/15/21	415,000	347,562
7.625% Sr. Unsec. Nts., 1/15/22	755,000	611,550
Centennial Resource Production LLC, 5.375% Sr. Unsec. Nts., 1/15/26 <sup>1</sup>	430,000	402,050

	Principal Amount	Value
<b>Oil, Gas &amp; Consumable Fuels (Continued)</b>		
Cheniere Corpus Christi Holdings LLC:		
5.125% Sr. Sec. Nts., 6/30/27	\$ 525,000	\$ 497,595
7.00% Sr. Sec. Nts., 6/30/24	940,000	994,050
Chesapeake Energy Corp.:		
6.125% Sr. Unsec. Nts., 2/15/21	493,000	465,885
7.00% Sr. Unsec. Nts., 10/1/24	1,405,000	1,222,350
7.50% Sr. Unsec. Nts., 10/1/26	570,000	490,200
8.00% Sr. Unsec. Nts., 1/15/25	265,000	235,187
8.00% Sr. Unsec. Nts., 6/15/27	425,000	359,125
Citadel LP, 5.375% Sr. Unsec. Nts., 1/17/23 <sup>1</sup>	280,000	277,700
CITGO Petroleum Corp., 6.25% Sr. Sec. Nts., 8/15/22 <sup>1</sup>	70,000	68,075
CNX Resources Corp., 5.875% Sr. Unsec. Nts., 4/15/22	195,000	187,687
Crestwood Midstream Partners LP/ Crestwood Midstream Finance Corp., 5.75% Sr. Unsec. Nts., 4/1/25	100,000	93,250
CrownRock LP/CrownRock Finance, Inc., 5.625% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	1,080,000	976,050
CVR Refining LLC/Coffeyville Finance, Inc., 6.50% Sr. Unsec. Nts., 11/1/22	1,155,000	1,143,450
DCP Midstream Operating LP, 2.70% Sr. Unsec. Nts., 4/1/19	345,000	343,059
Denbury Resources, Inc.:		
9.00% Sec. Nts., 5/15/21 <sup>1</sup>	555,000	521,700
9.25% Sec. Nts., 3/31/22 <sup>1</sup>	611,000	566,702
Endeavor Energy Resources LP/EER Finance, Inc., 5.75% Sr. Unsec. Nts., 1/30/28 <sup>1</sup>	275,000	281,930
Energy Transfer Equity LP, 7.50% Sr. Sec. Nts., 10/15/20	290,000	302,325
Energy Transfer LP, 5.875% Sr. Sec. Nts., 1/15/24	565,000	578,210
Energy Transfer Operating LP, 6.625% [US0003M+415.5] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	684,000	565,582
Enviva Partners LP/Enviva Partners Finance Corp., 8.50% Sr. Unsec. Nts., 11/1/21	1,090,000	1,121,337
EP Energy LLC/Everest Acquisition Finance, Inc.:		
7.75% Sr. Sec. Nts., 5/15/26 <sup>1</sup>	415,000	368,831
8.00% Sr. Sec. Nts., 11/29/24 <sup>1</sup>	425,000	318,750
8.00% Sec. Nts., 2/15/25 <sup>1</sup>	1,692,000	706,410
9.375% Sec. Nts., 5/1/24 <sup>3</sup>	3,042,000	1,368,900
Extraction Oil & Gas, Inc., 7.375% Sr. Unsec. Nts., 5/15/24 <sup>1</sup>	265,000	219,950
Foresight Energy LLC/Foresight Energy Finance Corp., 11.50% Sec. Nts., 4/1/23 <sup>1</sup>	210,000	179,550
Frontera Energy Corp., 9.70% Sr. Unsec. Nts., 6/25/23 <sup>1</sup>	985,000	975,150
Genesis Energy LP/Genesis Energy Finance Corp.:		
6.00% Sr. Unsec. Nts., 5/15/23	725,000	672,437
6.25% Sr. Unsec. Nts., 5/15/26	1,005,000	866,812
6.50% Sr. Unsec. Nts., 10/1/25	795,000	703,575
6.75% Sr. Unsec. Nts., 8/1/22	140,000	137,200
Gulfport Energy Corp.:		
6.00% Sr. Unsec. Nts., 10/15/24	275,000	244,750
6.375% Sr. Unsec. Nts., 5/15/25	275,000	244,406
Halcon Resources Corp., 6.75% Sr. Unsec. Nts., 2/15/25	530,000	389,550
Hess Infrastructure Partners LP/Hess Infrastructure Partners Finance Corp., 5.625% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>	275,000	267,437
HighPoint Operating Corp., 8.75% Sr. Unsec. Nts., 6/15/25	188,000	179,540

	Principal Amount	Value
<b>Oil, Gas &amp; Consumable Fuels (Continued)</b>		
Hilcorp Energy I LP/Hilcorp Finance Co., 5.75% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	\$ 165,000	\$ 147,675
Holly Energy Partners LP/Holly Energy Finance Corp., 6.00% Sr. Unsec. Nts., 8/1/24 <sup>1</sup>	265,000	261,025
Indigo Natural Resources LLC, 6.875% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>	455,000	393,575
Indika Energy Capital III Pte Ltd., 5.875% Sr. Sec. Nts., 11/9/24 <sup>1</sup>	1,190,000	1,040,613
Jones Energy Holdings LLC/Jones Energy Finance Corp., 6.75% Sr. Unsec. Nts., 4/1/22	818,000	159,510
KazMunayGas National Co. JSC: 4.75% Sr. Unsec. Nts., 4/24/25 <sup>1</sup>	1,025,000	1,018,594
5.375% Sr. Unsec. Nts., 4/24/30 <sup>1</sup>	1,915,000	1,887,734
6.375% Sr. Unsec. Nts., 10/24/48 <sup>1</sup>	1,720,000	1,735,910
KazTransGas JSC, 4.375% Sr. Unsec. Nts., 9/26/27 <sup>1</sup>	1,155,000	1,074,627
Laredo Petroleum, Inc.: 5.625% Sr. Unsec. Nts., 1/15/22	285,000	257,212
6.25% Sr. Unsec. Nts., 3/15/23	165,000	148,912
LBC Tank Terminals Holding Netherlands BV, 6.875% Sr. Unsec. Nts., 5/15/23 <sup>1</sup>	235,000	211,500
Medco Platinum Road Pte Ltd., 6.75% Sr. Sec. Nts., 1/30/25 <sup>1</sup>	2,115,000	1,814,031
MEG Energy Corp.: 6.50% Sec. Nts., 1/15/25 <sup>1</sup>	520,000	529,750
7.00% Sr. Unsec. Nts., 3/31/24 <sup>1</sup>	615,000	590,400
Moss Creek Resources Holdings, Inc., 7.50% Sr. Unsec. Nts., 1/15/26 <sup>1</sup>	575,000	500,250
Murphy Oil Corp., 6.875% Sr. Unsec. Nts., 8/15/24	390,000	388,841
Murray Energy Corp., 12.00% Sec. Nts., 4/15/24 <sup>1,13</sup>	2,418,173	1,317,904
Newfield Exploration Co., 5.625% Sr. Unsec. Nts., 7/1/24	290,000	294,350
NGL Energy Partners LP/NGL Energy Finance Corp.: 6.125% Sr. Unsec. Nts., 3/1/25	1,295,000	1,120,175
7.50% Sr. Unsec. Nts., 11/1/23	705,000	680,325
Northern Oil & Gas, Inc., 9.50% Sec. Nts., 5/15/23 <sup>13</sup>	145,000	140,287
NuStar Logistics LP, 5.625% Sr. Unsec. Nts., 4/28/27	330,000	308,962
Oasis Petroleum, Inc.: 6.25% Sr. Unsec. Nts., 5/1/26 <sup>1</sup>	275,000	231,688
6.875% Sr. Unsec. Nts., 1/15/23	355,000	328,819
Parkland Fuel Corp., 6.00% Sr. Unsec. Nts., 4/1/26 <sup>1</sup>	275,000	259,188
Parsley Energy LLC/Parsley Finance Corp., 5.625% Sr. Unsec. Nts., 10/15/27 <sup>1</sup>	400,000	365,500
PBF Holding Co. LLC/PBF Finance Corp.: 7.00% Sr. Sec. Nts., 11/15/23	375,000	360,000
7.25% Sr. Unsec. Nts., 6/15/25	420,000	396,900
PBF Logistics LP/PBF Logistics Finance Corp., 6.875% Sr. Unsec. Nts., 5/15/23	430,000	424,625
PDC Energy, Inc., 5.75% Sr. Unsec. Nts., 5/15/26	535,000	477,488
Peabody Energy Corp., 6.375% Sr. Sec. Nts., 3/31/25 <sup>1</sup>	275,000	256,438
Petrobras Global Finance BV: 5.299% Sr. Unsec. Nts., 1/27/25	1,475,000	1,412,313
5.999% Sr. Unsec. Nts., 1/27/28	2,660,000	2,511,067
Petroleos Mexicanos: 3.75% Sr. Unsec. Nts., 2/21/24 <sup>9</sup>	EUR 505,000	557,258
3.75% Sr. Unsec. Nts., 4/16/26 <sup>9</sup>	EUR 895,000	939,987
Puma International Financing SA, 5.00% Sr. Unsec. Nts., 1/24/26 <sup>1</sup>	1,045,000	815,185

	Principal Amount	Value
<b>Oil, Gas &amp; Consumable Fuels (Continued)</b>		
QEP Resources, Inc., 5.625% Sr. Unsec. Nts., 3/1/26	\$ 665,000	\$ 554,444
Reliance Industries Ltd.: 6.78% Unsec. Nts., 9/16/20	INR 70,000,000	991,273
7.00% Unsec. Nts., 8/31/22	INR 210,000,000	2,934,616
Repsol International Finance BV, 4.50% [EUSA10+420] Jr. Sub. Nts., 3/25/75 <sup>2,9</sup>	EUR 1,410,000	1,657,915
Resolute Energy Corp., 8.50% Sr. Unsec. Nts., 5/1/20	2,015,000	1,987,294
Rio Oil Finance Trust Series 2018-1, 8.20% Sr. Sec. Nts., 4/6/28 <sup>1</sup>	740,000	777,000
Saka Energi Indonesia PT, 4.45% Sr. Unsec. Nts., 5/5/24 <sup>1</sup>	600,000	550,384
Sanchez Energy Corp.: 6.125% Sr. Unsec. Nts., 1/15/23	1,600,000	296,000
7.25% Sr. Sec. Nts., 2/15/23 <sup>1</sup>	570,000	467,400
7.75% Sr. Unsec. Nts., 6/15/21	755,000	181,200
SemGroup Corp./Rose Rock Finance Corp.: 5.625% Sr. Unsec. Nts., 7/15/22	165,000	156,338
5.625% Sr. Unsec. Nts., 11/15/23	545,000	498,675
SM Energy Co.: 6.625% Sr. Unsec. Nts., 1/15/27	280,000	250,600
6.75% Sr. Unsec. Nts., 9/15/26	170,000	153,000
Southern Gas Corridor CJSC, 6.875% Sr. Unsec. Nts., 3/24/26 <sup>1</sup>	1,015,000	1,099,736
Southwestern Energy Co.: 6.20% Sr. Unsec. Nts., 1/23/25	137,000	123,129
7.50% Sr. Unsec. Nts., 4/1/26	265,000	251,750
SRC Energy, Inc., 6.25% Sr. Unsec. Nts., 12/1/25	305,000	254,675
Summit Midstream Holdings LLC/Summit Midstream Finance Corp., 5.75% Sr. Unsec. Nts., 4/15/25	780,000	721,500
Sunoco LP/Sunoco Finance Corp.: 4.875% Sr. Unsec. Nts., 1/15/23	335,000	327,463
5.50% Sr. Unsec. Nts., 2/15/26	180,000	171,000
5.875% Sr. Unsec. Nts., 3/15/28	404,000	378,904
Tallgrass Energy Partners LP/Tallgrass Energy Finance Corp.: 5.50% Sr. Unsec. Nts., 9/15/24 <sup>1</sup>	555,000	548,063
5.50% Sr. Unsec. Nts., 1/15/28 <sup>1</sup>	335,000	323,275
Targa Resources Partners LP/Targa Resources Partners Finance Corp.: 5.00% Sr. Unsec. Nts., 1/15/28	635,000	576,263
5.875% Sr. Unsec. Nts., 4/15/26 <sup>1</sup>	550,000	537,625
Topaz Marine SA, 9.125% Sr. Unsec. Nts., 7/26/22 <sup>1</sup>	480,000	483,413
TransMontaigne Partners LP/TLP Finance Corp., 6.125% Sr. Unsec. Nts., 2/15/26	135,000	121,500
Ultra Resources, Inc.: 6.875% Sr. Unsec. Nts., 4/15/22 <sup>1</sup>	390,000	140,400
7.125% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	295,000	94,400
USA Compression Partners LP/USA Compression Finance Corp., 6.875% Sr. Unsec. Nts., 4/1/26 <sup>1</sup>	415,000	400,475
W&T Offshore, Inc., 9.75% Sec. Nts., 11/1/23 <sup>1</sup>	70,000	61,950
Whiting Petroleum Corp., 6.625% Sr. Unsec. Nts., 1/15/26	550,000	474,375
WildHorse Resource Development Corp., 6.875% Sr. Unsec. Nts., 2/1/25	275,000	261,250
WPX Energy, Inc.: 5.75% Sr. Unsec. Nts., 6/1/26	275,000	250,250
8.25% Sr. Unsec. Nts., 8/1/23	415,000	435,750
		68,203,214

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Financials—12.3%</b>		
<b>Capital Markets—1.8%</b>		
Charles Schwab Corp. (The), 5.00% [US0003M+257.5] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	\$ 1,343,000	\$ 1,130,135
Credit Suisse Group AG: 7.125% [USSW5+510.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	1,260,000	1,245,825
7.50% [USSW5+459.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	4,280,000	4,363,460
Diamond Resorts International, Inc.: 7.75% Sr. Sec. Nts., 9/1/23 <sup>1</sup>	265,000	255,394
10.75% Sr. Unsec. Nts., 9/1/24 <sup>1</sup>	590,000	532,475
E*TRADE Financial Corp., 5.875% [US0003M+443.5] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,258,000	1,135,345
Eagle Intermediate Global Holding BV/ Ruyi US Finance LLC, 7.50% Sr. Sec. Nts., 5/1/25 <sup>3</sup>	285,000	267,686
European Bank for Reconstruction & Development, 28.50%, 7/10/19 TRY	10,100,000	1,955,249
Flex Acquisition Co., Inc., 6.875% Sr. Unsec. Nts., 1/15/25 <sup>1</sup>	1,530,000	1,369,350
Goldman Sachs Group, Inc. (The): 5.00% [US0003M+287.4] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	681,000	575,871
5.375% [US0003M+392.2] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	645,000	624,051
Huarong Finance 2017 Co. Ltd., 4.25% Sr. Unsec. Nts., 11/7/27 <sup>9</sup>	1,015,000	914,840
Icahn Enterprises LP/Icahn Enterprises Finance Corp., 6.375% Sr. Unsec. Nts., 12/15/25	545,000	525,925
Macquarie Bank Ltd. (London), 6.125% [USSW5+370.3] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	1,268,000	1,085,725
MSCI, Inc., 5.375% Sr. Unsec. Nts., 5/15/27 <sup>1</sup>	275,000	269,844
NCI Building Systems, Inc., 8.00% Sec. Nts., 4/15/26 <sup>1</sup>	135,000	124,031
Prime Security Services Borrower LLC/ Prime Finance, Inc., 9.25% Sec. Nts., 5/15/23 <sup>1</sup>	867,000	896,261
Refinitiv US Holdings, Inc.: 6.25% Sr. Sec. Nts., 5/15/26 <sup>1</sup>	285,000	275,381
8.25% Sr. Unsec. Nts., 11/15/26 <sup>1</sup>	285,000	261,131
Rivers Pittsburgh Borrower LP/Rivers Pittsburgh Finance Corp., 6.125% Sr. Sec. Nts., 8/15/21 <sup>1</sup>	375,000	364,688
State Street Corp., 5.625% [US0003M+253.9] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	609,000	576,266
Tempo Acquisition LLC/Tempo Acquisition Finance Corp., 6.75% Sr. Unsec. Nts., 6/1/25 <sup>1</sup>	805,000	748,650
TerraForm Power Operating LLC: 4.25% Sr. Unsec. Nts., 1/31/23 <sup>1</sup>	510,000	478,125
5.00% Sr. Unsec. Nts., 1/31/28 <sup>1</sup>	195,000	172,331
Trident Merger Sub, Inc., 6.625% Sr. Unsec. Nts., 11/1/25 <sup>1</sup>	805,000	720,475
UBS Group Funding Switzerland AG: 6.875% [USISDA05+549.65] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	3,905,000	3,917,367
7.125% [USSW5+588.3] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	1,220,000	1,240,603
		26,026,484
<b>Commercial Banks—6.1%</b>		
Abanca Corp. Bancaria SA, 7.50% [EUSA5+732.6] Jr. Sub. Perpetual Bonds <sup>2,9,14,15</sup>	EUR 1,600,000	1,736,407

	Principal Amount	Value
<b>Commercial Banks (Continued)</b>		
Astana Finance JSC, 9.16% Sr. Unsec. Nts., 12/22/24 <sup>10,11</sup>	\$ 315,159	\$ —
Australia & New Zealand Banking Group Ltd. (United Kingdom), 6.75% [USISDA05+516.8] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	105,000	103,294
Banca Monte dei Paschi di Siena SpA, 5.375% [EUSA5+500.5] Sub. Nts., 1/18/28 <sup>2,9</sup>	EUR 4,239,000	2,851,195
Banco Bilbao Vizcaya Argentaria SA: 5.875% [EUSA5+566] Jr. Sub. Perpetual Bonds <sup>2,9,14,15</sup>	EUR 2,190,000	2,335,674
6.125% [USSW5+387] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,290,000	1,083,600
6.75% [EUSA5+660.4] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,450,000	1,648,902
8.875% [EUSA5+917.7] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 2,860,000	3,559,080
Banco do Brasil SA (Cayman), 3.875% Sr. Unsec. Nts., 10/10/22	1,370,000	1,323,762
Banco Mercantil del Norte SA (Grand Cayman), 7.625% [H15T10Y+535.3] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	395,000	384,141
Banco Santander SA: 6.375% [USSW5+478.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	1,290,000	1,238,239
6.75% [EUSA5+680.3] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 4,235,000	4,946,264
Bank of America Corp., 6.30% [US0003M+455.3] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,478,000	1,504,826
Barclays plc: 7.75% [USSW5+484.2] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,165,000	1,123,549
7.875% [USSW5+677.2] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	1,225,000	1,229,594
BBVA Bancomer SA, 5.35% [H15T5Y+300] Sub. Nts., 11/12/29 <sup>1,2</sup>	865,000	800,125
BNP Paribas SA: 7.625% [USSW5+631.4] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	1,210,000	1,235,712
7.625% [USSW5+631.4] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	4,535,000	4,631,369
Caixa Geral de Depositos SA, 5.75% [EUSA5+550] Sub. Nts., 6/28/28 <sup>2,9</sup>	EUR 1,455,000	1,700,749
CaixaBank SA, 6.75% [EUSA5+649.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 2,915,000	3,384,392
CIT Group, Inc.: 4.125% Sr. Unsec. Nts., 3/9/21	460,000	454,250
5.00% Sr. Unsec. Nts., 8/15/22	140,000	138,425
5.25% Sr. Unsec. Nts., 3/7/25	285,000	279,300
5.80% [US0003M+397.2] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,308,000	1,187,010
Citigroup, Inc., 6.125% [US0003M+447.8] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	947,000	925,692
Citizens Financial Group, Inc., 6.00% [US0003M+300.3] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	635,000	585,787
Credit Agricole SA, 8.125% [USSW5+618.5] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	1,390,000	1,433,437
Fidelity Bank plc, 10.50% Sr. Unsec. Nts., 10/16/22 <sup>1</sup>	560,000	562,958
Fifth Third Bancorp, 5.10% [US0003M+303.33] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	335,000	291,869

	Principal Amount	Value
<b>Commercial Banks (Continued)</b>		
HSBC Holdings plc:		
5.25% [EUSA5+438.3] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 5,215,000	\$ 5,945,181
6.00% [EUSA5+533.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,745,000	2,120,147
Huntington Bancshares, Inc., 5.70% [US0003M+288] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	674,000	599,439
IDBI Bank Ltd. (GIFT-IFC), 5.00% Sr. Unsec. Nts., 9/25/19 <sup>9</sup>	430,000	430,739
ING Groep NV, 6.875% [USSW5+512.4] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	1,210,000	1,206,975
Intesa Sanpaolo SpA:		
3.875% Sr. Unsec. Nts., 1/12/28 <sup>1</sup>	1,465,000	1,254,187
7.00% [EUSA5+688.4] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,405,000	1,633,075
7.70% [USSW5+546.15] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	2,931,000	2,630,573
JPMorgan Chase & Co.:		
6.125% [US0003M+333] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,231,000	1,223,306
5.99% [US0003M+347] Jr. Sub. Perpetual Bonds, Series 1 <sup>2,14</sup>	1,136,000	1,124,640
KBC Group NV, 5.625% [EUSA5+475.9] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 2,145,000	2,455,331
Kenan Advantage Group, Inc. (The), 7.875% Sr. Unsec. Nts., 7/31/23 <sup>1</sup>	965,000	928,813
Lloyds Bank plc, 7.50% Sr. Unsec. Nts., 4/2/32 <sup>7,9</sup>	2,825,000	2,278,283
Lloyds Banking Group plc:		
6.375% [EUSA5+529] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,820,000	2,062,296
7.50% [USSW5+449.6] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,239,000	1,198,980
Royal Bank of Scotland Group plc, 7.50% [USSW5+580] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	2,250,000	2,233,125
Societe Generale SA:		
6.75% [EUSA5+553.8] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,255,000	1,459,363
7.375% [USSW5+623.8] Jr. Sub. Perpetual Bonds <sup>1,2,14</sup>	5,460,000	5,330,325
SunTrust Banks, Inc.:		
5.05% [US0003M+310.2] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	992,000	872,960
5.125% [US0003M+278.6] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	694,000	590,077
Swiss Insured Brazil Power Finance Sarl, 9.85% Sr. Sec. Nts., 7/16/32	BRL 5,250,000	1,364,736
UBS Group Funding Switzerland AG: 5.00% [USSW5+243.2] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	435,000	362,953
5.75% [EUSA5+528.7] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 2,925,000	3,559,352
Wachovia Capital Trust III, 5.57% [US0003M+93] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	1,323,000	1,198,307
Wells Fargo & Co., 6.558% [US0003M+377] Jr. Sub. Perpetual Bonds, Series K <sup>2,14</sup>	270,000	268,650
Zenith Bank plc, 7.375% Sr. Unsec. Nts., 5/30/22 <sup>1</sup>	550,000	547,528
		87,558,943
<b>Consumer Finance—1.0%</b>		
Ahern Rentals, Inc., 7.375% Sec. Nts., 5/15/23 <sup>1</sup>	605,000	487,025
Ally Financial, Inc.:		
4.625% Sr. Unsec. Nts., 5/19/22	440,000	433,950
5.75% Sub. Nts., 11/20/25	1,070,000	1,068,662

	Principal Amount	Value
<b>Consumer Finance (Continued)</b>		
Ally Financial, Inc.: (Continued)		
8.00% Sr. Unsec. Nts., 11/1/31	\$ 415,000	\$ 462,725
American Express Co., 4.90% [US0003M+328.5] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	974,000	933,822
Discover Financial Services, 5.50% [US0003M+307.6] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	652,000	542,516
Enova International, Inc., 8.50% Sr. Unsec. Nts., 9/15/25 <sup>1</sup>	855,000	698,963
Minejesa Capital BV:		
4.625% Sr. Sec. Nts., 8/10/30 <sup>3</sup>	2,660,000	2,380,923
5.625% Sr. Sec. Nts., 8/10/37 <sup>3</sup>	4,285,000	3,771,160
Navient Corp.:		
5.875% Sr. Unsec. Nts., 10/25/24	790,000	663,600
6.50% Sr. Unsec. Nts., 6/15/22	535,000	499,176
6.625% Sr. Unsec. Nts., 7/26/21	505,000	488,588
6.75% Sr. Unsec. Nts., 6/25/25	685,000	585,675
6.75% Sr. Unsec. Nts., 6/15/26	415,000	345,488
Terraform Global Operating LLC, 6.125% Sr. Unsec. Nts., 3/1/26 <sup>1</sup>	820,000	764,650
TMX Finance LLC/TitleMax Finance Corp., 11.125% Sr. Sec. Nts., 4/1/23 <sup>1</sup>	555,000	448,690
		14,575,613
<b>Diversified Financial Services—0.4%</b>		
Export-Import Bank of India, 7.35% Sr. Unsec. Nts., 5/18/22	INR 70,000,000	981,095
Fidelity & Guaranty Life Holdings, Inc., 5.50% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>	385,000	369,715
JPMorgan Hipotecaria su Casita, 6.47% Sec. Nts., 8/26/35 <sup>1,11</sup>	MXN 5,808,600	26,602
Park Aerospace Holdings Ltd.:		
5.25% Sr. Unsec. Nts., 8/15/22 <sup>1</sup>	135,000	131,119
5.50% Sr. Unsec. Nts., 2/15/24 <sup>1</sup>	570,000	551,475
Rural Electrification Corp. Ltd.:		
7.24% Sr. Unsec. Nts., 10/21/21	INR 140,000,000	1,972,788
7.60% Sr. Unsec. Nts., 4/17/21	INR 100,000,000	1,419,830
Voya Financial, Inc., 4.70% [US0003M+208.4] Jr. Sub. Nts., 1/23/48 <sup>2</sup>	686,000	541,165
		5,993,789
<b>Insurance—0.9%</b>		
AXA SA, 3.875% [EUSA11+325] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 2,825,000	3,293,791
Credivalores-Crediservicios SAS, 9.75% Sr. Unsec. Nts., 7/27/22 <sup>1</sup>	670,000	586,250
Genworth Holdings, Inc.:		
7.625% Sr. Unsec. Nts., 9/24/21	330,000	327,525
7.70% Sr. Unsec. Nts., 6/15/20	430,000	436,450
Hartford Financial Services Group, Inc. (The), 4.741% [US0003M+212.5] Jr. Sub. Nts., 2/12/47 <sup>2,3</sup>	689,000	552,922
HUB International Ltd., 7.00% Sr. Unsec. Nts., 5/1/26 <sup>1</sup>	275,000	250,250
Liberty Mutual Group, Inc., 5.693% [US0003M+290.5] Jr. Sub. Nts., 3/15/37 <sup>1,2</sup>	323,000	301,197
Lincoln National Corp., 4.998% [US0003M+235.75] Jr. Sub. Nts., 5/17/66 <sup>2</sup>	704,000	576,013
MetLife, Inc., 5.25% [US0003M+357.5] Jr. Sub. Perpetual Bonds <sup>2,14</sup>	647,000	622,738
Power Finance Corp. Ltd.:		
7.27% Sr. Unsec. Nts., 12/22/21	INR 140,000,000	1,989,382
7.42% Sr. Unsec. Nts., 6/26/20	INR 85,000,000	1,212,216
7.50% Sr. Unsec. Nts., 8/16/21	INR 140,000,000	1,963,660
		12,112,394



# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Real Estate Investment Trusts (REITs)—0.8%</b>		
AHP Health Partners, Inc., 9.75% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	\$ 275,000	\$ 279,812
Banco Invex SA/Hipotecaria Credito y Casa SA de CV, 6.45% Sec. Nts., 3/13/34 <sup>10,11,16</sup>	MXN 4,830,531	—
Equinix, Inc.:		
5.375% Sr. Unsec. Nts., 5/15/27	780,000	764,400
5.875% Sr. Unsec. Nts., 1/15/26	945,000	954,450
GLP Capital LP/GLP Financing II, Inc., 5.375% Sr. Unsec. Nts., 11/1/23	410,000	417,154
Iron Mountain US Holdings, Inc., 5.375% Sr. Unsec. Nts., 6/1/26 <sup>1</sup>	995,000	910,425
Iron Mountain, Inc., 4.875% Sr. Unsec. Nts., 9/15/27 <sup>1</sup>	410,000	359,775
iStar, Inc.:		
5.00% Sr. Unsec. Nts., 7/1/19	197,000	196,508
5.25% Sr. Unsec. Nts., 9/15/22	800,000	749,920
6.00% Sr. Unsec. Nts., 4/1/22	1,165,000	1,130,050
Lamar Media Corp., 5.75% Sr. Unsec. Nts., 2/1/26	620,000	630,075
MPT Operating Partnership LP/MPT Finance Corp.:		
5.00% Sr. Unsec. Nts., 10/15/27	795,000	728,916
6.375% Sr. Unsec. Nts., 3/1/24	250,000	257,500
Outfront Media Capital LLC/Outfront Media Capital Corp., 5.875% Sr. Unsec. Nts., 3/15/25	720,000	709,200
SBA Communications Corp., 4.00% Sr. Unsec. Nts., 10/1/22	690,000	660,675
Starwood Property Trust, Inc.:		
4.75% Sr. Unsec. Nts., 3/15/25	805,000	726,513
5.00% Sr. Unsec. Nts., 12/15/21	760,000	748,600
Uniti Group LP/Uniti Group Finance, Inc./CSL Capital LLC, 8.25% Sr. Unsec. Nts., 10/15/23	780,000	682,500
		10,906,473
<b>Real Estate Management &amp; Development—0.7%</b>		
Agile Group Holdings Ltd., 9.00% Sr. Sec. Nts., 5/21/20 <sup>9</sup>	2,620,000	2,693,158
CIFI Holdings Group Co. Ltd., 7.75% Sr. Unsec. Nts., 6/5/20 <sup>9</sup>	1,555,000	1,577,084
Country Garden Holdings Co. Ltd., 7.50% Sr. Sec. Nts., 3/9/20 <sup>9</sup>	1,555,000	1,577,631
Greystar Real Estate Partners LLC, 5.75% Sr. Sec. Nts., 12/1/25 <sup>1</sup>	805,000	788,900
Hunt Cos., Inc., 6.25% Sr. Sec. Nts., 2/15/26 <sup>1</sup>	815,000	698,374
Mattamy Group Corp., 6.875% Sr. Unsec. Nts., 12/15/23 <sup>1</sup>	505,000	474,069
New Metro Global Ltd., 6.50% Sr. Unsec. Nts., 4/23/21 <sup>9</sup>	490,000	476,171
Realogy Group LLC/Realogy Co.-Issuer Corp., 4.875% Sr. Unsec. Nts., 6/1/23 <sup>1</sup>	965,000	844,375
Shea Homes LP/Shea Homes Funding Corp., 6.125% Sr. Unsec. Nts., 4/1/25 <sup>1</sup>	745,000	663,050
Times China Holdings Ltd., 6.25% Sr. Sec. Nts., 1/23/20 <sup>9</sup>	490,000	485,183
		10,277,995
<b>Thriffs &amp; Mortgage Finance—0.6%</b>		
Export-Import Bank of India, 8.00% Sr. Unsec. Nts., 5/27/21	INR 280,000,000	4,013,062
LIC Housing Finance Ltd., 7.45% Sr. Sec. Nts., 10/17/22	INR 70,000,000	989,485
Nationstar Mortgage Holdings, Inc., 8.125% Sr. Unsec. Nts., 7/15/23 <sup>1</sup>	415,000	405,663
Provident Funding Associates LP/PFG Finance Corp., 6.375% Sr. Unsec. Nts., 6/15/25 <sup>1</sup>	395,000	359,450

	Principal Amount	Value
<b>Thriffs &amp; Mortgage Finance (Continued)</b>		
Quicken Loans, Inc.:		
5.25% Sr. Unsec. Nts., 1/15/28 <sup>1</sup>	\$ 1,075,000	\$ 955,406
5.75% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>	1,150,000	1,081,000
Radian Group, Inc., 4.50% Sr. Unsec. Nts., 10/1/24	545,000	496,631
		8,300,697
<b>Health Care—2.9%</b>		
<b>Biotechnology—0.1%</b>		
WeWork Cos, Inc., 7.875% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>	1,380,000	1,231,650
<b>Health Care Equipment &amp; Supplies—0.1%</b>		
DJO Finance LLC/DJO Finance Corp., 8.125% Sec. Nts., 6/15/21 <sup>1</sup>	480,000	495,600
Hill-Rom Holdings, Inc., 5.75% Sr. Unsec. Nts., 9/1/23 <sup>1</sup>	495,000	496,856
Hologic, Inc., 4.375% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	145,000	135,575
		1,128,031
<b>Health Care Providers &amp; Services—1.5%</b>		
Acadia Healthcare Co., Inc.:		
5.625% Sr. Unsec. Nts., 2/15/23	305,000	290,512
6.50% Sr. Unsec. Nts., 3/1/24	250,000	242,500
Agility Health, Inc., 7.625% Sec. Nts., 8/15/20	755,000	750,281
Centene Corp.:		
4.75% Sr. Unsec. Nts., 5/15/22	655,000	649,269
5.375% Sr. Unsec. Nts., 6/1/26 <sup>1</sup>	825,000	804,375
6.125% Sr. Unsec. Nts., 2/15/24	245,000	251,431
CHS/Community Health Systems, Inc.:		
6.25% Sr. Sec. Nts., 3/31/23	1,695,000	1,546,772
6.875% Sr. Unsec. Nts., 2/1/22	549,000	252,540
8.125% Sec. Nts., 6/30/24 <sup>3</sup>	60,000	44,100
DaVita, Inc.:		
5.00% Sr. Unsec. Nts., 5/1/25	275,000	250,594
5.125% Sr. Unsec. Nts., 7/15/24	1,285,000	1,207,900
Encompass Health Corp., 5.75% Sr. Unsec. Nts., 11/1/24	1,235,000	1,227,281
Envision Healthcare Corp., 8.75% Sr. Unsec. Nts., 10/15/26 <sup>1</sup>	855,000	741,712
HCA, Inc.:		
5.375% Sr. Unsec. Nts., 2/1/25	680,000	664,700
5.375% Sr. Unsec. Nts., 9/1/26	1,415,000	1,379,625
5.50% Sr. Sec. Nts., 6/15/47	365,000	346,750
5.625% Sr. Unsec. Nts., 9/1/28	1,415,000	1,369,013
5.875% Sr. Unsec. Nts., 2/15/26	275,000	274,313
7.50% Sr. Unsec. Nts., 2/15/22	1,425,000	1,517,625
OCP SA, 4.50% Sr. Unsec. Nts., 10/22/25 <sup>1</sup>	960,000	922,299
Omnicare, Inc., 4.75% Sr. Unsec. Nts., 12/1/22	1,765,000	1,822,503
RegionalCare Hospital Partners Holdings, Inc./LifePoint Health, Inc., 9.75% Sr. Unsec. Nts., 12/1/26 <sup>1</sup>	855,000	812,250
Select Medical Corp., 6.375% Sr. Unsec. Nts., 6/1/21	770,000	770,963
Tenet Healthcare Corp.:		
4.375% Sr. Sec. Nts., 10/1/21	520,000	505,700
6.75% Sr. Unsec. Nts., 6/15/23	1,685,000	1,588,113
7.50% Sec. Nts., 1/1/22 <sup>1</sup>	505,000	513,206
8.125% Sr. Unsec. Nts., 4/1/22	765,000	769,781
TPC Group, Inc., 8.75% Sr. Sec. Nts., 12/15/20 <sup>1</sup>	420,000	401,100
		21,917,208
<b>Health Care Technology—0.1%</b>		
Telenet Finance Luxembourg Notes Sarl, 5.50% Sr. Sec. Nts., 3/1/28 <sup>1</sup>	805,000	732,550

	Principal Amount	Value
<b>Life Sciences Tools &amp; Services—0.0%</b>		
West Street Merger Sub, Inc., 6.375% Sr. Unsec. Nts., 9/1/25 <sup>1</sup>	\$ 415,000	\$ 369,350
<b>Pharmaceuticals—1.1%</b>		
Bausch Health Cos., Inc.:		
5.50% Sr. Unsec. Nts., 3/1/23 <sup>1</sup>	355,000	324,981
5.50% Sr. Sec. Nts., 11/1/25 <sup>1</sup>	935,000	875,394
5.875% Sr. Unsec. Nts., 5/15/23 <sup>1</sup>	1,025,000	951,969
6.125% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	1,480,000	1,295,000
7.00% Sr. Sec. Nts., 3/15/24 <sup>1</sup>	655,000	663,188
9.00% Sr. Unsec. Nts., 12/15/25 <sup>1</sup>	1,220,000	1,218,475
Endo Dac/Endo Finance LLC/Endo Finco, Inc.:		
5.875% Sr. Sec. Nts., 10/15/24 <sup>1</sup>	275,000	261,250
6.00% Sr. Unsec. Nts., 7/15/23 <sup>1</sup>	1,255,000	963,212
6.00% Sr. Unsec. Nts., 2/1/25 <sup>1</sup>	540,000	390,150
Endo Finance LLC/Endo Finco, Inc.:		
5.375% Sr. Unsec. Nts., 1/15/23 <sup>1</sup>	1,745,000	1,334,925
7.25% Sr. Unsec. Nts., 1/15/22 <sup>1</sup>	275,000	239,250
Mallinckrodt International Finance SA/ Mallinckrodt CB LLC:		
4.875% Sr. Unsec. Nts., 4/15/20 <sup>1</sup>	835,000	809,950
5.50% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	1,320,000	917,400
5.625% Sr. Unsec. Nts., 10/15/23 <sup>1</sup>	285,000	218,025
5.75% Sr. Unsec. Nts., 8/1/22 <sup>1</sup>	930,000	804,450
Prestige Brands, Inc., 6.375% Sr. Unsec. Nts., 3/1/24 <sup>1</sup>		
	325,000	315,250
Teva Pharmaceutical Finance Co. BV, 3.65% Sr. Unsec. Nts., 11/10/21		
	485,000	459,804
Teva Pharmaceutical Finance Netherlands II BV, 0.375% Sr. Unsec. Nts., 7/25/20 <sup>9</sup>		
	EUR 1,460,000	1,634,804
Teva Pharmaceutical Finance Netherlands III BV:		
1.70% Sr. Unsec. Nts., 7/19/19	235,000	231,942
3.15% Sr. Unsec. Nts., 10/1/26	275,000	210,336
6.00% Sr. Unsec. Nts., 4/15/24	875,000	844,943
Valeant Pharmaceuticals International, 8.50% Sr. Unsec. Nts., 1/31/27 <sup>1</sup>		
	825,000	802,313
		15,767,011
<b>Industrials—3.5%</b>		
<b>Aerospace &amp; Defense—0.6%</b>		
Arconic, Inc., 5.125% Sr. Unsec. Nts., 10/1/24		
	535,000	517,947
Bombardier, Inc.:		
6.00% Sr. Unsec. Nts., 10/15/22 <sup>1</sup>	475,000	447,687
7.50% Sr. Unsec. Nts., 12/1/24 <sup>1</sup>	1,140,000	1,077,300
7.50% Sr. Unsec. Nts., 3/15/25 <sup>1</sup>	805,000	761,731
8.75% Sr. Unsec. Nts., 12/1/21 <sup>1</sup>	1,170,000	1,209,488
DAE Funding LLC:		
4.50% Sr. Unsec. Nts., 8/1/22 <sup>1</sup>	590,000	567,875
5.00% Sr. Unsec. Nts., 8/1/24 <sup>1</sup>	265,000	257,050
Kratos Defense & Security Solutions, Inc., 6.50% Sr. Sec. Nts., 11/30/25 <sup>1</sup>		
	400,000	407,500
TransDigm, Inc.:		
6.375% Sr. Sub. Nts., 6/15/26	655,000	611,606
6.50% Sr. Sub. Nts., 7/15/24	535,000	522,294
Triumph Group, Inc.:		
5.25% Sr. Unsec. Nts., 6/1/22	785,000	686,875
7.75% Sr. Unsec. Nts., 8/15/25	2,435,000	2,154,975
		9,222,328
<b>Airlines—0.2%</b>		
American Airlines Group, Inc., 4.625% Sr. Unsec. Nts., 3/1/20 <sup>1</sup>		
	645,000	644,193
Controladora Mabe SA de CV, 5.60% Sr. Unsec. Nts., 10/23/28 <sup>1</sup>		
	830,000	781,030
Gol Finance, Inc., 7.00% Sr. Unsec. Nts., 1/31/25 <sup>1</sup>		
	515,000	458,994

	Principal Amount	Value
<b>Airlines (Continued)</b>		
United Continental Holdings, Inc., 4.25% Sr. Unsec. Nts., 10/1/22		
	\$ 800,000	\$ 773,000
		2,657,217
<b>Building Products—0.1%</b>		
JELD-WEN, Inc.:		
4.625% Sr. Unsec. Nts., 12/15/25 <sup>1</sup>	120,000	105,300
4.875% Sr. Unsec. Nts., 12/15/27 <sup>1</sup>	120,000	101,700
Standard Industries, Inc., 5.375% Sr. Unsec. Nts., 11/15/24 <sup>1</sup>		
	915,000	862,388
		1,069,388
<b>Commercial Services &amp; Supplies—0.6%</b>		
ACCO Brands Corp., 5.25% Sr. Unsec. Nts., 12/15/24 <sup>1</sup>		
	815,000	731,462
Affinion Group, Inc., 12.50% Sr. Unsec. Nts., 11/10/22 <sup>3,13</sup>		
	1,004,830	764,927
ARD Finance SA, 7.125% Sr. Sec. Nts., 9/15/23 <sup>13</sup>		
	775,000	699,437
Brink's Co. (The), 4.625% Sr. Unsec. Nts., 10/15/27 <sup>1</sup>		
	870,000	796,250
Clean Harbors, Inc., 5.125% Sr. Unsec. Nts., 6/1/21		
	830,000	830,000
Covanta Holding Corp.:		
5.875% Sr. Unsec. Nts., 3/1/24	850,000	801,125
5.875% Sr. Unsec. Nts., 7/1/25	310,000	286,363
6.00% Sr. Unsec. Nts., 1/1/27	570,000	513,000
GFL Environmental, Inc., 5.625% Sr. Unsec. Nts., 5/1/22 <sup>1</sup>		
	720,000	667,800
Hulk Finance Corp., 7.00% Sr. Unsec. Nts., 6/1/26 <sup>1</sup>		
	825,000	721,875
RR Donnelley & Sons Co., 7.875% Sr. Unsec. Nts., 3/15/21		
	371,000	372,855
TMS International Corp., 7.25% Sr. Unsec. Nts., 8/15/25 <sup>1</sup>		
	265,000	248,438
Waste Pro USA, Inc., 5.50% Sr. Unsec. Nts., 2/15/26 <sup>1</sup>		
	125,000	115,625
West Corp.:		
5.375% Sr. Unsec. Nts., 7/15/22 <sup>1</sup>	685,000	653,319
8.50% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	665,000	528,675
		8,731,151
<b>Construction &amp; Engineering—0.1%</b>		
AECOM, 5.125% Sr. Unsec. Nts., 3/15/27		
	535,000	460,100
Fideicomiso PA Pacifico Tres, 8.25% Sr. Sec. Nts., 1/15/35 <sup>1</sup>		
	510,000	535,500
New Enterprise Stone & Lime Co., Inc., 6.25% Sr. Sec. Nts., 3/15/26 <sup>1</sup>		
	275,000	250,937
Tutor Perini Corp., 6.875% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>		
	565,000	526,863
		1,773,400
<b>Electrical Equipment—0.2%</b>		
Sensata Technologies BV, 5.625% Sr. Unsec. Nts., 11/1/24 <sup>1</sup>		
	1,090,000	1,077,737
Vertiv Group Corp., 9.25% Sr. Unsec. Nts., 10/15/24 <sup>1</sup>		
	760,000	703,000
Vertiv Intermediate Holding Corp., 12.00% Sr. Unsec. Nts., 2/15/22 <sup>1,13</sup>		
	570,000	526,538
		2,307,275
<b>Industrial Conglomerates—0.3%</b>		
Citgo Holding, Inc., 10.75% Sr. Sec. Nts., 2/15/20 <sup>1</sup>		
	570,000	582,825
General Electric Co., 5.00% [US0003M+333] Jr. Sub. Perpetual Bonds <sup>2,14</sup>		
	2,594,000	1,987,652
Icahn Enterprises LP/Icahn Enterprises Finance Corp., 5.875% Sr. Unsec. Nts., 2/1/22		
	385,000	378,744

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Industrial Conglomerates (Continued)</b>		
Tupras Turkiye Petrol Rafinerileri AS, 4.50% Sr. Unsec. Nts., 10/18/24 <sup>1</sup>	\$ 460,000	\$ 403,724
Wind Tre SpA, 5.00% Sr. Sec. Nts., 1/20/26	805,000	667,152
		4,020,097
<b>Machinery—0.4%</b>		
Allison Transmission, Inc.:		
4.75% Sr. Unsec. Nts., 10/1/27 <sup>1</sup>	265,000	237,175
5.00% Sr. Unsec. Nts., 10/1/24 <sup>1</sup>	500,000	481,875
Amsted Industries, Inc., 5.00% Sr. Unsec. Nts., 3/15/22 <sup>1</sup>	1,120,000	1,094,800
EnPro Industries, Inc., 5.75% Sr. Unsec. Nts., 10/15/26 <sup>1</sup>	285,000	275,737
Icahn Enterprises LP/Icahn Enterprises Finance Corp., 6.75% Sr. Unsec. Nts., 2/1/24	570,000	566,437
Meritor, Inc., 6.25% Sr. Unsec. Nts., 2/15/24	150,000	144,000
Navistar International Corp., 6.625% Sr. Unsec. Nts., 11/1/25 <sup>1</sup>	915,000	887,550
Stevens Holding Co., Inc., 6.125% Sr. Unsec. Nts., 10/1/26 <sup>1</sup>	570,000	564,300
Terex Corp., 5.625% Sr. Unsec. Nts., 2/1/25 <sup>1</sup>	525,000	489,563
Titan International, Inc., 6.50% Sr. Sec. Nts., 11/30/23 <sup>3</sup>	990,000	891,000
Wabash National Corp., 5.50% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	270,000	232,538
		5,864,975
<b>Professional Services—0.1%</b>		
Brand Industrial Services, Inc., 8.50% Sr. Unsec. Nts., 7/15/25 <sup>1</sup>	795,000	681,712
IHS Markit Ltd., 4.00% Sr. Unsec. Nts., 3/1/26 <sup>1</sup>	270,000	251,775
		933,487
<b>Road &amp; Rail—0.2%</b>		
Algeco Global Finance plc, 8.00% Sr. Sec. Nts., 2/15/23 <sup>1</sup>	270,000	253,125
Avis Budget Car Rental LLC/Avis Budget Finance, Inc., 5.25% Sr. Unsec. Nts., 3/15/25 <sup>1</sup>	520,000	451,750
DAE Funding LLC, 4.00% Sr. Unsec. Nts., 8/1/20 <sup>1</sup>	265,000	259,038
Hertz Corp. (The):		
5.50% Sr. Unsec. Nts., 10/15/24 <sup>1</sup>	420,000	308,700
5.875% Sr. Unsec. Nts., 10/15/20	660,000	642,675
7.375% Sr. Unsec. Nts., 1/15/21	265,000	258,706
7.625% Sec. Nts., 6/1/22 <sup>1</sup>	570,000	538,650
		2,712,644
<b>Trading Companies &amp; Distributors—0.5%</b>		
American Builders & Contractors Supply Co., Inc., 5.75% Sr. Unsec. Nts., 12/15/23 <sup>1</sup>	340,000	337,450
Fly Leasing Ltd., 5.25% Sr. Unsec. Nts., 10/15/24	530,000	480,975
H&E Equipment Services, Inc., 5.625% Sr. Unsec. Nts., 9/1/25	800,000	737,000
Herc Rentals, Inc., 7.50% Sec. Nts., 6/1/22 <sup>1</sup>	473,000	496,650
ILFC E-Capital Trust I, 4.55% [30YR CMT+155] Jr. Sub. Nts., 12/21/65 <sup>1,2</sup>	1,355,000	1,056,900
National Bank for Agriculture & Rural Development, 8.39% Sr. Unsec. Nts., 7/19/21	INR 55,000,000	795,257
Standard Industries, Inc., 6.00% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	740,000	712,509

	Principal Amount	Value
<b>Trading Companies &amp; Distributors (Continued)</b>		
United Rentals North America, Inc.:		
4.625% Sr. Unsec. Nts., 10/15/25	\$ 265,000	\$ 237,175
4.875% Sr. Unsec. Nts., 1/15/28	690,000	607,200
5.875% Sr. Unsec. Nts., 9/15/26	1,235,000	1,168,619
6.50% Sr. Unsec. Nts., 12/15/26	570,000	562,875
		7,192,610
<b>Transportation Infrastructure—0.2%</b>		
Aeropuerto Internacional de Tocumen SA, 6.00% Sr. Sec. Nts., 11/18/48 <sup>1</sup>	425,000	423,385
DP World Ltd., 5.625% Sr. Unsec. Nts., 9/25/48 <sup>1</sup>	1,010,000	953,440
GMR Hyderabad International Airport Ltd., 4.25% Sr. Sec. Nts., 10/27/27 <sup>1</sup>	965,000	797,275
Jasa Marga Persero Tbk PT, 7.50% Sr. Unsec. Nts., 12/11/20 <sup>1</sup>	IDR 9,160,000,000	600,632
		2,774,732
<b>Information Technology—1.5%</b>		
<b>Communications Equipment—0.2%</b>		
CommScope Technologies LLC, 6.00% Sr. Unsec. Nts., 6/15/25 <sup>1</sup>	570,000	521,550
HTA Group Ltd., 9.125% Sr. Unsec. Nts., 3/8/22 <sup>3</sup>	455,000	463,872
Infor US, Inc., 6.50% Sr. Unsec. Nts., 5/15/22	920,000	893,228
Plantronics, Inc., 5.50% Sr. Unsec. Nts., 5/31/23 <sup>1</sup>	435,000	405,637
Riverbed Technology, Inc., 8.875% Sr. Unsec. Nts., 3/1/23 <sup>1</sup>	295,000	219,038
ViaSat, Inc., 5.625% Sr. Unsec. Nts., 9/15/25 <sup>1</sup>	265,000	245,125
		2,748,450
<b>Electronic Equipment, Instruments, &amp; Components—0.1%</b>		
APX Group, Inc., 7.875% Sr. Sec. Nts., 12/1/22	275,000	261,250
CDW LLC/CDW Finance Corp., 5.00% Sr. Unsec. Nts., 9/1/23	485,000	478,937
TTM Technologies, Inc., 5.625% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	800,000	746,000
		1,486,187
<b>Internet Software &amp; Services—0.1%</b>		
Rackspace Hosting, Inc., 8.625% Sr. Unsec. Nts., 11/15/24 <sup>1</sup>	1,395,000	1,091,588
<b>IT Services—0.5%</b>		
Alliance Data Systems Corp., 5.375% Sr. Unsec. Nts., 8/1/22 <sup>1</sup>	275,000	269,156
Booz Allen Hamilton, Inc., 5.125% Sr. Unsec. Nts., 5/1/25 <sup>1</sup>	280,000	267,400
Everi Payments, Inc., 7.50% Sr. Unsec. Nts., 12/15/25 <sup>1</sup>	1,075,000	1,019,906
Exela Intermediate LLC/Exela Finance, Inc., 10.00% Sr. Sec. Nts., 7/15/23 <sup>1</sup>	770,000	738,237
First Data Corp.:		
5.00% Sr. Sec. Nts., 1/15/24 <sup>1</sup>	455,000	439,644
5.75% Sec. Nts., 1/15/24 <sup>1</sup>	910,000	892,109
Gartner, Inc., 5.125% Sr. Unsec. Nts., 4/1/25 <sup>1</sup>	780,000	760,648
GTT Communications, Inc., 7.875% Sr. Unsec. Nts., 12/31/24 <sup>1</sup>	140,000	121,800
Harland Clarke Holdings Corp., 6.875% Sr. Sec. Nts., 3/1/20 <sup>1</sup>	835,000	816,213
Sabre GLBL, Inc., 5.25% Sr. Sec. Nts., 11/15/23 <sup>1</sup>	825,000	818,813
VeriSign, Inc., 4.75% Sr. Unsec. Nts., 7/15/27	590,000	555,515
		6,699,441

	Principal Amount	Value
<b>Semiconductors &amp; Semiconductor Equipment—0.1%</b>		
NXP BV/NXP Funding LLC, 4.625% Sr. Unsec. Nts., 6/1/23 <sup>1</sup>	\$ 1,350,000	\$ 1,326,375
Qorvo, Inc., 5.50% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	555,000	531,413
Versum Materials, Inc., 5.50% Sr. Unsec. Nts., 9/30/24 <sup>1</sup>	250,000	248,125
		2,105,913
<b>Software—0.3%</b>		
Dell International LLC/EMC Corp.: 5.875% Sr. Unsec. Nts., 6/15/21 <sup>1</sup>	215,000	215,298
7.125% Sr. Unsec. Nts., 6/15/24 <sup>1</sup>	745,000	758,611
Informatica LLC, 7.125% Sr. Unsec. Nts., 7/15/23 <sup>1</sup>	595,000	582,440
j2 Cloud Services LLC/j2 Global Co.-Obligor, Inc., 6.00% Sr. Unsec. Nts., 7/15/25 <sup>1</sup>	790,000	775,187
Symantec Corp., 5.00% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	495,000	463,103
TIBCO Software, Inc., 11.375% Sr. Unsec. Nts., 12/1/21 <sup>1</sup>	625,000	656,250
Uber Technologies, Inc.: 7.50% Sr. Unsec. Nts., 11/1/23 <sup>1</sup>	285,000	276,450
8.00% Sr. Unsec. Nts., 11/1/26 <sup>1</sup>	285,000	275,737
Veritas US, Inc./Veritas Bermuda Ltd., 7.50% Sr. Sec. Nts., 2/1/23 <sup>1</sup>	1,125,000	922,500
		4,925,576
<b>Technology Hardware, Storage &amp; Peripherals—0.2%</b>		
Banff Merger Sub, Inc., 9.75% Sr. Unsec. Nts., 9/1/26 <sup>1</sup>	850,000	779,875
Harland Clarke Holdings Corp., 8.375% Sr. Sec. Nts., 8/15/22 <sup>1</sup>	920,000	842,950
NCR Corp., 6.375% Sr. Unsec. Nts., 12/15/23	520,000	505,289
		2,128,114
<b>Materials—3.3%</b>		
<b>Chemicals—1.1%</b>		
Ashland LLC: 4.75% Sr. Unsec. Nts., 8/15/22	285,000	281,794
6.875% Sr. Unsec. Nts., 5/15/43	295,000	292,050
Avantor, Inc.: 6.00% Sr. Sec. Nts., 10/1/24 <sup>1</sup>	415,000	408,775
9.00% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	835,000	837,087
Blue Cube Spinco LLC, 9.75% Sr. Unsec. Nts., 10/15/23	285,000	314,212
Celanese US Holdings LLC, 5.875% Sr. Unsec. Nts., 6/15/21	1,285,000	1,351,499
CF Industries, Inc.: 3.40% Sr. Sec. Nts., 12/1/21 <sup>1</sup>	1,460,000	1,432,472
5.15% Sr. Unsec. Nts., 3/15/34	335,000	283,075
Chemours Co. (The), 6.625% Sr. Unsec. Nts., 5/15/23	233,000	236,204
Consolidated Energy Finance SA, 6.50% Sr. Unsec. Nts., 5/15/26 <sup>1</sup>	275,000	264,688
CVR Partners LP/CVR Nitrogen Finance Corp., 9.25% Sec. Nts., 6/15/23 <sup>1</sup>	185,000	193,094
Hexion, Inc.: 6.625% Sr. Sec. Nts., 4/15/20	1,850,000	1,480,000
10.375% Sr. Sec. Nts., 2/1/22 <sup>1</sup>	240,000	192,600
Huntsman International LLC, 4.875% Sr. Unsec. Nts., 11/15/20	285,000	287,138
Koppers, Inc., 6.00% Sr. Unsec. Nts., 2/15/25 <sup>1</sup>	510,000	451,350
Kraton Polymers LLC/Kraton Polymers Capital Corp., 7.00% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	260,000	240,500
LSB Industries, Inc., 9.625% Sr. Sec. Nts., 5/1/23 <sup>1</sup>	135,000	137,700

	Principal Amount	Value
<b>Chemicals (Continued)</b>		
NOVA Chemicals Corp.: 4.875% Sr. Unsec. Nts., 6/1/24 <sup>1</sup>	\$ 260,000	\$ 235,625
5.25% Sr. Unsec. Nts., 8/1/23 <sup>1</sup>	340,000	322,575
Olin Corp.: 5.00% Sr. Unsec. Nts., 2/1/30	240,000	211,200
5.125% Sr. Unsec. Nts., 9/15/27	300,000	277,500
Petkim Petrokimya Holding AS, 5.875% Sr. Unsec. Nts., 1/26/23 <sup>1</sup>	800,000	731,118
Platform Specialty Products Corp.: 5.875% Sr. Unsec. Nts., 12/1/25 <sup>1</sup>	305,000	286,700
6.50% Sr. Unsec. Nts., 2/1/22 <sup>1</sup>	195,000	195,731
PQ Corp.: 5.75% Sr. Unsec. Nts., 12/15/25 <sup>1</sup>	270,000	251,100
6.75% Sr. Sec. Nts., 11/15/22 <sup>1</sup>	285,000	294,975
Rain CII Carbon LLC/CII Carbon Corp., 7.25% Sec. Nts., 4/1/25 <sup>1</sup>	980,000	891,800
Starfruit Finco BV/Starfruit US Holdco LLC: 6.50% Sr. Unsec. Nts., 10/1/26 <sup>1</sup>	EUR 1,455,000	1,547,124
8.00% Sr. Unsec. Nts., 10/1/26 <sup>1</sup>	430,000	398,825
Tronox Finance plc, 5.75% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	535,000	435,356
Venator Finance Sarl/Venator Materials LLC, 5.75% Sr. Unsec. Nts., 7/15/25 <sup>1</sup>	790,000	635,950
		15,399,817
<b>Construction Materials—0.2%</b>		
CIMPOR Financial Operations BV, 5.75% Sr. Unsec. Nts., 7/17/24 <sup>1</sup>	2,040,000	1,700,850
James Hardie International Finance DAC, 4.75% Sr. Unsec. Nts., 1/15/25 <sup>1</sup>	130,000	118,788
Summit Materials LLC/Summit Materials Finance Corp., 5.125% Sr. Unsec. Nts., 6/1/25 <sup>1</sup>	260,000	237,250
US Concrete, Inc., 6.375% Sr. Unsec. Nts., 6/1/24	715,000	661,375
		2,718,263
<b>Containers &amp; Packaging—0.7%</b>		
ARD Securities Finance Sarl, 8.75% Sr. Sec. Nts., 1/31/23 <sup>1,13</sup>	852,240	724,404
Ball Corp., 4.375% Sr. Unsec. Nts., 12/15/20	1,460,000	1,469,125
BWAY Holding Co., 7.25% Sr. Unsec. Nts., 4/15/25 <sup>1</sup>	555,000	500,194
Crown Americas LLC/Crown Americas Capital Corp. IV, 4.50% Sr. Unsec. Nts., 1/15/23	605,000	592,144
Crown Americas LLC/Crown Americas Capital Corp. VI, 4.75% Sr. Unsec. Nts., 2/1/26 <sup>1</sup>	270,000	256,837
Flex Acquisition Co., Inc., 7.875% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	555,000	500,887
Graphic Packaging International LLC, 4.75% Sr. Unsec. Nts., 4/15/21	770,000	770,962
Intertape Polymer Group, Inc., 7.00% Sr. Unsec. Nts., 10/15/26 <sup>1</sup>	570,000	564,300
Klabi Finance SA, 4.875% Sr. Unsec. Nts., 9/19/27 <sup>1</sup>	350,000	318,500
OI European Group BV, 4.00% Sr. Unsec. Nts., 3/15/23 <sup>1</sup>	535,000	501,563
Owens-Brockway Glass Container, Inc., 5.00% Sr. Unsec. Nts., 1/15/22 <sup>1</sup>	500,000	496,875
Plastipak Holdings, Inc., 6.25% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	800,000	712,000
Reynolds Group Issuer, Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer Luxembourg SA: 5.125% Sr. Sec. Nts., 7/15/23 <sup>1</sup>	745,000	710,544
7.00% Sr. Unsec. Nts., 7/15/24 <sup>1</sup>	995,000	949,603

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Principal Amount	Value
<b>Containers &amp; Packaging (Continued)</b>		
Sealed Air Corp.:		
4.875% Sr. Unsec. Nts., 12/1/22 <sup>1</sup>	\$ 585,000	\$ 581,344
6.875% Sr. Unsec. Nts., 7/15/33 <sup>1</sup>	270,000	270,675
		9,919,957
<b>Metals &amp; Mining—1.2%</b>		
AK Steel Corp.:		
6.375% Sr. Unsec. Nts., 10/15/25	1,000,000	775,000
7.00% Sr. Unsec. Nts., 3/15/27	405,000	317,925
Alcoa Nederland Holding BV:		
6.125% Sr. Unsec. Nts., 5/15/28 <sup>1</sup>	510,000	489,600
6.75% Sr. Unsec. Nts., 9/30/24 <sup>1</sup>	245,000	249,900
7.00% Sr. Unsec. Nts., 9/30/26 <sup>1</sup>	240,000	246,000
Aleris International, Inc., 10.75% Sec. Nts., 7/15/23 <sup>1</sup>	280,000	286,804
Allegheny Technologies, Inc., 7.875% Sr. Unsec. Nts., 8/15/23	530,000	542,587
ArcelorMittal:		
6.75% Sr. Unsec. Nts., 3/1/41	295,000	311,303
7.00% Sr. Unsec. Nts., 10/15/39	145,000	153,213
Coeur Mining, Inc., 5.875% Sr. Unsec. Nts., 6/1/24	785,000	693,744
Constellium NV, 6.625% Sr. Unsec. Nts., 3/1/25 <sup>1</sup>	510,000	474,300
Eldorado Gold Corp., 6.125% Sr. Unsec. Nts., 12/15/20 <sup>1</sup>	590,000	538,375
Ferroglobe plc/Globe Specialty Metals, Inc., 9.375% Sr. Unsec. Nts., 3/1/22 <sup>1</sup>	750,000	618,750
First Quantum Minerals Ltd.:		
6.50% Sr. Unsec. Nts., 3/1/24 <sup>1</sup>	275,000	229,281
6.875% Sr. Unsec. Nts., 3/1/26 <sup>1</sup>	275,000	221,719
7.00% Sr. Unsec. Nts., 2/15/21 <sup>1</sup>	285,000	274,134
7.25% Sr. Unsec. Nts., 4/1/23 <sup>1</sup>	780,000	689,325
Freeport-McMoRan, Inc.:		
3.10% Sr. Unsec. Nts., 3/15/20	340,000	333,200
4.00% Sr. Unsec. Nts., 11/14/21	1,460,000	1,425,325
4.55% Sr. Unsec. Nts., 11/14/24	530,000	490,913
5.40% Sr. Unsec. Nts., 11/14/34	310,000	245,675
5.45% Sr. Unsec. Nts., 3/15/43	350,000	268,187
Hudbay Minerals, Inc., 7.625% Sr. Unsec. Nts., 1/15/25 <sup>1</sup>	850,000	835,125
Indonesia Asahan Aluminium Persero PT:		
6.53% Sr. Unsec. Nts., 11/15/28 <sup>1</sup>	310,000	325,927
6.757% Sr. Unsec. Nts., 11/15/48 <sup>1</sup>	250,000	256,883
JSW Steel Ltd., 4.75% Sr. Unsec. Nts., 11/12/19 <sup>9</sup>	950,000	948,219
Kinross Gold Corp., 4.50% Sr. Unsec. Nts., 7/15/27	450,000	389,813
Metinvest BV, 7.75% Sr. Unsec. Nts., 4/23/23 <sup>1</sup>	465,000	424,756
Mountain Province Diamonds, Inc., 8.00% Sec. Nts., 12/15/22 <sup>1</sup>	335,000	337,261
Northwest Acquisitions ULC/Dominion Finco, Inc., 7.125% Sec. Nts., 11/1/22 <sup>1</sup>	715,000	708,586
Southern Copper Corp., 7.50% Sr. Unsec. Nts., 7/27/35	900,000	1,055,250
SunCoke Energy Partners LP/SunCoke Energy Partners Finance Corp., 7.50% Sr. Unsec. Nts., 6/15/25 <sup>1</sup>	330,000	313,500
Teck Resources Ltd., 5.20% Sr. Unsec. Nts., 3/1/42	685,000	578,825
United States Steel Corp.:		
6.25% Sr. Unsec. Nts., 3/15/26	140,000	123,025
6.875% Sr. Unsec. Nts., 8/15/25	845,000	777,400
Zekelman Industries, Inc., 9.875% Sr. Sec. Nts., 6/15/23 <sup>1</sup>	275,000	290,813
		17,240,643

	Principal Amount	Value
<b>Paper &amp; Forest Products—0.1%</b>		
Clearwater Paper Corp., 5.375% Sr. Unsec. Nts., 2/1/25 <sup>1</sup>	\$ 245,000	\$ 222,337
Louisiana-Pacific Corp., 4.875% Sr. Unsec. Nts., 9/15/24	255,000	246,712
Mercer International, Inc.:		
5.50% Sr. Unsec. Nts., 1/15/26	250,000	225,000
6.50% Sr. Unsec. Nts., 2/1/24	165,000	162,113
Suzano Austria GmbH, 7.00% Sr. Unsec. Nts., 3/16/47 <sup>1</sup>	845,000	869,083
		1,725,245
<b>Telecommunication Services—2.6%</b>		
<b>Diversified Telecommunication Services—1.3%</b>		
Axtel SAB de CV, 6.375% Sr. Unsec. Nts., 11/14/24 <sup>1</sup>	965,000	918,912
CenturyLink, Inc.:		
5.625% Sr. Unsec. Nts., 4/1/25	785,000	692,762
6.15% Sr. Unsec. Nts., Series Q, 9/15/19	340,000	345,195
6.45% Sr. Unsec. Nts., Series S, 6/15/21	615,000	615,769
7.50% Sr. Unsec. Nts., Series Y, 4/1/24	940,000	909,450
Cincinnati Bell, Inc., 8.00% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	265,000	219,950
Eldorado Resorts, Inc., 6.00% Sr. Unsec. Nts., 9/15/26 <sup>1</sup>	425,000	402,687
Frontier Communications Corp.:		
8.50% Sec. Nts., 4/1/26 <sup>1</sup>	1,100,000	965,250
8.75% Sr. Unsec. Nts., 4/15/22	590,000	376,125
10.50% Sr. Unsec. Nts., 9/15/22	1,315,000	920,500
GCI LLC, 6.75% Sr. Unsec. Nts., 6/1/21	140,000	140,669
Intelsat Connect Finance SA, 9.50% Sr. Unsec. Nts., 2/15/23 <sup>1</sup>	420,000	363,300
Intelsat Jackson Holdings SA:		
5.50% Sr. Unsec. Nts., 8/1/23	255,000	223,125
8.00% Sr. Sec. Nts., 2/15/24 <sup>1</sup>	615,000	634,987
8.50% Sr. Unsec. Nts., 10/15/24 <sup>1</sup>	565,000	550,875
9.75% Sr. Unsec. Nts., 7/15/25 <sup>1</sup>	790,000	796,162
Intelsat Luxembourg SA, 7.75% Sr. Unsec. Nts., 6/1/21	565,000	516,975
Level 3 Financing, Inc., 5.25% Sr. Unsec. Nts., 3/15/26	1,195,000	1,096,412
Oi SA, 10.00% Sr. Unsec. Nts., 7/27/25 <sup>13</sup>	2,500,000	2,484,400
Qwest Capital Funding, Inc., 7.75% Sr. Unsec. Nts., 2/15/31	260,000	213,200
Qwest Corp., 6.875% Sr. Unsec. Nts., 9/15/33	785,000	703,720
T-Mobile USA, Inc.:		
4.00% Sr. Unsec. Nts., 4/15/22	780,000	762,450
4.50% Sr. Unsec. Nts., 2/1/26	245,000	225,706
4.75% Sr. Unsec. Nts., 2/1/28	250,000	227,188
5.125% Sr. Unsec. Nts., 4/15/25	780,000	760,500
5.375% Sr. Unsec. Nts., 4/15/27	390,000	377,813
6.00% Sr. Unsec. Nts., 4/15/24	710,000	711,775
Windstream Services LLC / Windstream Finance Corp., 9.00% Sec. Nts., 6/30/25	298,000	203,385
Windstream Services LLC/Windstream Finance Corp., 8.625% Sr. Sec. Nts., 10/31/25	772,000	690,940
Zayo Group LLC/Zayo Capital, Inc.:		
5.75% Sr. Unsec. Nts., 1/15/27 <sup>1</sup>	265,000	237,175
6.00% Sr. Unsec. Nts., 4/1/23	895,000	851,369
		19,138,726
<b>Wireless Telecommunication Services—1.3%</b>		
C&W Senior Financing DAC, 6.875% Sr. Unsec. Nts., 9/15/27 <sup>1</sup>	550,000	510,262
Empresa Nacional del Petroleo, 5.25% Sr. Unsec. Nts., 11/6/29 <sup>1</sup>	835,000	850,985
Fortress Transportation & Infrastructure Investors LLC, 6.50% Sr. Unsec. Nts., 10/1/25 <sup>1</sup>	850,000	796,875

	Principal Amount	Value
<b>Wireless Telecommunication Services (Continued)</b>		
Gogo Intermediate Holdings LLC/Gogo Finance Co., Inc., 12.50% Sr. Sec. Nts., 7/1/22 <sup>1</sup>	\$ 140,000	\$ 150,231
GTH Finance BV, 7.25% Sr. Unsec. Nts., 4/26/23 <sup>1</sup>	940,000	965,742
Springleaf Finance Corp.:		
5.625% Sr. Unsec. Nts., 3/15/23	805,000	744,625
6.125% Sr. Unsec. Nts., 5/15/22	785,000	765,147
6.875% Sr. Unsec. Nts., 3/15/25	560,000	502,600
7.125% Sr. Unsec. Nts., 3/15/26	850,000	760,219
8.25% Sr. Unsec. Nts., 12/15/20	490,000	508,375
Sprint Capital Corp., 6.875% Sr. Unsec. Nts., 11/15/28	1,192,158	1,129,570
Sprint Communications, Inc.:		
6.00% Sr. Unsec. Nts., 11/15/22	1,979,000	1,947,000
7.00% Sr. Unsec. Nts., 3/1/20 <sup>1</sup>	850,000	873,375
Sprint Corp.:		
7.125% Sr. Unsec. Nts., 6/15/24	2,505,000	2,488,868
7.625% Sr. Unsec. Nts., 3/1/26	830,000	821,700
7.875% Sr. Unsec. Nts., 9/15/23	2,075,000	2,134,656
Telefonica Europe BV, 5.875% [EUSA10+430.1] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,410,000	1,724,251
Trilogy International Partners LLC/Trilogy International Finance, Inc., 8.875% Sr. Sec. Nts., 5/1/22 <sup>1</sup>	685,000	664,450
		18,338,931
<b>Utilities—1.5%</b>		
<b>Electric Utilities—0.4%</b>		
Capex SA, 6.875% Sr. Unsec. Nts., 5/15/24 <sup>1</sup>	450,000	375,750
Eskom Holdings SOC Ltd.:		
5.75% Sr. Unsec. Nts., 1/26/21 <sup>1</sup>	995,000	940,488
6.75% Sr. Unsec. Nts., 8/6/23 <sup>1</sup>	2,335,000	2,136,128
Inkia Energy Ltd., 5.875% Sr. Unsec. Nts., 11/9/27 <sup>1</sup>	865,000	804,459
Light Servicos de Eletricidade SA/Light Energia SA, 7.25% Sr. Unsec. Nts., 5/3/23 <sup>1</sup>	965,000	925,203
NextEra Energy Capital Holdings, Inc., 4.80% [US0003M+240.9] Jr. Sub. Nts., 12/1/77 <sup>2</sup>	665,000	562,553
NextEra Energy Operating Partners LP, 4.50% Sr. Unsec. Nts., 9/15/27 <sup>1</sup>	125,000	111,719
PPL Capital Funding, Inc., 5.468% [US0003M+266.5] Jr. Sub. Nts., 3/30/67 <sup>2</sup>	352,000	306,240
		6,162,540
<b>Gas Utilities—0.2%</b>		
AmeriGas Partners LP/AmeriGas Finance Corp., 5.50% Sr. Unsec. Nts., 5/20/25	550,000	506,000
Ferrellgas Partners LP/Ferrellgas Partners Finance Corp., 8.625% Sr. Unsec. Nts., 6/15/20	85,000	61,094
Naturgy Finance BV, 4.125% [EUSA8+335.3] Jr. Sub. Perpetual Bonds <sup>2,9,14</sup>	EUR 1,410,000	1,655,040
Suburban Propane Partners LP/Suburban Energy Finance Corp., 5.875% Sr. Unsec. Nts., 3/1/27	645,000	574,050
Superior Plus LP/Superior General Partner, Inc., 7.00% Sr. Unsec. Nts., 7/15/26 <sup>1</sup>	275,000	266,750
		3,062,934

	Principal Amount	Value
<b>Independent Power and Renewable Electricity Producers—0.4%</b>		
AES Andres BV/Dominican Power Partners/Empresa Generadora de Electricidad Itabo SA, 7.95% Sr. Unsec. Nts., 5/11/26 <sup>1</sup>	\$ 490,000	\$ 497,350
AES Corp.:		
4.00% Sr. Unsec. Nts., 3/15/21	275,000	270,875
6.00% Sr. Unsec. Nts., 5/15/26	540,000	550,800
Calpine Corp.:		
5.25% Sr. Sec. Nts., 6/1/26 <sup>1</sup>	1,090,000	998,713
5.75% Sr. Unsec. Nts., 1/15/25	855,000	784,463
5.875% Sr. Sec. Nts., 1/15/24 <sup>1</sup>	275,000	270,187
Clearway Energy Operating LLC, 5.75% Sr. Unsec. Nts., 10/15/25 <sup>1</sup>	285,000	273,244
Drax Finco plc, 6.625% Sr. Sec. Nts., 11/1/25 <sup>1</sup>	275,000	270,875
NRG Energy, Inc.:		
6.625% Sr. Unsec. Nts., 1/15/27	665,000	672,481
7.25% Sr. Unsec. Nts., 5/15/26	620,000	647,900
Talen Energy Supply LLC, 4.60% Sr. Unsec. Nts., 12/15/21	8,000	7,240
Vistra Operations Co. LLC, 5.50% Sr. Unsec. Nts., 9/1/26 <sup>1</sup>	280,000	270,550
		5,514,678

#### Multi-Utilities—0.5%

AssuredPartners, Inc., 7.00% Sr. Unsec. Nts., 8/15/25 <sup>1</sup>	330,000	299,072
Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., 6.25% Sr. Unsec. Nts., 4/1/23	265,000	256,388
Eskom Holdings SOC Ltd., 6.35% Sr. Unsec. Nts., 8/10/28 <sup>1</sup>	5,750,000	5,554,132
NGPL PipeCo LLC:		
4.875% Sr. Unsec. Nts., 8/15/27 <sup>1</sup>	395,000	373,769
7.768% Sr. Unsec. Nts., 12/15/37 <sup>1</sup>	210,000	240,450
Rockpoint Gas Storage Canada Ltd., 7.00% Sr. Sec. Nts., 3/31/23 <sup>1</sup>	365,000	344,925
WEC Energy Group, Inc., 4.729% [US0003M+211.25] Jr. Sub. Nts., 5/15/67 <sup>2</sup>	22,000	18,060
		7,086,796
Total Corporate Bonds and Notes (Cost \$644,171,464)		590,766,449

#### Shares

<b>Preferred Stocks—1.3%</b>		
American Homes 4 Rent, 6.35% Cum., Non-Vtg.	4,200	93,030
Citigroup Capital XIII, 7.75% Cum., Non-Vtg. [US0003M+637] <sup>2</sup>	61,700	1,630,731
Digital Realty Trust, Inc., 6.625% Cum., Series C, Non-Vtg.	3,900	103,272
Digital Realty Trust, Inc., 7.375% Cum., Non-Vtg.	25,600	645,376
DTE Energy Co., 5.375% Jr. Sub., Non-Vtg.	25,000	569,250
eBay, Inc., 6.00% Cv.	25,700	654,836
Fifth Third Bancorp, 6.625% Non-Cum., Non-Vtg. [US0003M+371] <sup>2</sup>	21,900	566,553
GMAC Capital Trust I, 7.20% Jr. Sub., Non-Vtg. [US0003M+578.5] <sup>2</sup>	61,325	1,554,589
Goldman Sachs Group, Inc. (The), 6.30% Non-Cum., Series N, Non-Vtg.	49,575	1,257,222
Huntington Bancshares, Inc., 6.25% Non-Cum., Non-Vtg.	24,925	618,638
KeyCorp, 6.125% Non-Cum., Non-Vtg. [US0003M+389.2] <sup>2</sup>	53,125	1,371,687
Morgan Stanley, 5.85% Non-Cum., Non-Vtg. [US0003M+349.1] <sup>2</sup>	35,475	861,333
Morgan Stanley, 6.375% Non-Cum., Non-Vtg. [US0003M+370.8] <sup>2</sup>	49,650	1,252,669

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

	Shares	Value
<b>Preferred Stocks (Continued)</b>		
NiSource, Inc., 6.50%, Non-Vtg. [H15T5Y+363.2] <sup>2,17</sup>	23,493 \$	588,265
Northern Trust Corp., 5.85% Non-Cum., Non-Vtg.	13,150	326,251
PNC Financial Services Group, Inc. (The), 6.125% Non-Cum., Non-Vtg. [US0003M+406.7] <sup>2</sup>	49,500	1,274,130
Prudential Financial, Inc., 5.75% Jr. Sub.	5,200	123,448
Public Storage, 5.20% Cum., Series X, Non- Vtg.	25,450	561,173
Qwest Corp., 7.00% Sr. Unsec.	17,350	358,972
Senior Housing Properties Trust, 5.625% Sr. Unsec.	13,925	281,146
Senior Housing Properties Trust, 6.25% Sr. Unsec., Non-Vtg.	6,375	144,713
Synovus Financial Corp., 6.30% Non-Cum., Series D, Non-Vtg. [US0003M+335.2] <sup>2</sup>	24,374	585,951
US Bancorp, 6.50% Non-Cum., Non-Vtg. [US0003M+446.8] <sup>2</sup>	57,900	1,533,192
Ventas Realty LP/Ventas Capital Corp., 5.45% Sr. Unsec.	26,825	649,165
Wells Fargo & Co., 6.625% Non-Cum.. Non- Vtg. [US0003M+369] <sup>2</sup>	26,450	695,106
Total Preferred Stocks (Cost \$19,595,246)		18,300,698

<b>Common Stocks—0.1%</b>		
Advanz Pharma Corp. <sup>17</sup>	2,103	40,167
Alcoa Corp. <sup>17</sup>	11,035	293,310
Arco Capital Corp. Ltd. <sup>1,11,12,17</sup>	690,638	—
Avaya Holdings Corp. <sup>17</sup>	11,857	172,638
Bausch Health Cos, Inc. <sup>17</sup>	4,376	80,825
Carrizo Oil & Gas, Inc. <sup>17</sup>	17,605	198,761
CyrusOne, Inc.	3,571	188,835
First Data Corp., Cl. A <sup>17</sup>	10,218	172,786
Herc Holdings, Inc. <sup>17</sup>	6,075	157,889
JSC Astana Finance, GDR <sup>1,11,17</sup>	446,838	—
Kinross Gold Corp. <sup>17</sup>	52,267	169,345
Newfield Exploration Co. <sup>17</sup>	7,806	114,436
Premier Holdings Ltd. <sup>11,17</sup>	18,514	—
Quicksilver Resources, Inc. <sup>11,17</sup>	4,151,000	—
Sabine Oil <sup>11,17</sup>	837	38,084
Targa Resources Corp.	2,631	94,769
United Rentals, Inc. <sup>17</sup>	1,791	183,631
United States Steel Corp.	14,256	260,029
Total Common Stocks (Cost \$7,793,201)		2,165,505

	Units	Value
<b>Rights, Warrants and Certificates—0.0%</b>		
Affinion Group Wts., Strike Price \$1, Exp. 11/10/22 <sup>11,17</sup>	8,816 \$	74,848
Sabine Oil Tranche 1 Wts., Strike Price \$4.49, Exp. 8/11/26 <sup>11,17</sup>	2,612	11,101
Sabine Oil Tranche 2 Wts., Strike Price \$2.72, Exp. 8/11/26 <sup>11,17</sup>	549	1,715
Total Rights, Warrants and Certificates (Cost \$420,786)		87,664

	Principal Amount	
<b>Structured Securities—0.5%</b>		
Deutsche Bank AG, Coriolanus Ltd. Sec. Credit Linked Bonds:		
3.003% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	881,750	783,396
3.054% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	1,123,486	998,167
3.098% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	969,950	861,758
3.131% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	867,013	770,302
3.179% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	1,079,501	959,089
3.231% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	1,232,087	1,094,654
3.265% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	984,293	874,501
3.346% Sr. Sec. Nts., 4/30/25 <sup>1,8</sup>	925,194	821,994
Morgan Stanley, Russian Federation		
Total Return Linked Bonds, Series 007, Cl. VR, 5.00%, 8/22/34 <sup>11</sup>	RUB 25,388,281	74,171
Total Structured Securities (Cost \$7,668,140)		7,238,032

<b>Short-Term Notes—1.3%</b>			
Arab Republic of Egypt Treasury Bills:			
16.013%, 3/5/19 <sup>8</sup>	EGP	50,000,000	2,714,779
18.432%, 2/5/19 <sup>8</sup>	EGP	87,000,000	4,800,374
Argentine Republic Treasury Bills:			
0.00%, 3/29/19 <sup>8</sup>	ARS	8,200,000	242,669
0.00%, 1/31/19 <sup>8</sup>	ARS	371,000,000	11,302,398
Total Short-Term Notes (Cost \$18,900,130)			19,060,220

	Shares	
<b>Investment Companies—21.4%</b>		
Eaton Vance Floating-Rate Income Trust	117,200	1,483,751
Oppenheimer Institutional Government Money Market Fund, Cl. E, 2.35% <sup>18,19</sup>	70,746,424	70,746,424
Oppenheimer Limited-Term Bond Fund, Cl. I <sup>19</sup>	1,654,825	7,363,973
Oppenheimer Master Event-Linked Bond Fund, LLC <sup>19</sup>	1,954,233	29,797,284
Oppenheimer Master Loan Fund, LLC <sup>19</sup>	8,607,367	144,969,978
Oppenheimer Ultra-Short Duration Fund, Cl. Y <sup>19</sup>	10,238,165	51,088,443
Total Investment Companies (Cost \$320,011,537)		305,449,853

Counterparty	Exercise Price	Expiration Date	Contracts	Notional Amount (000's)	Value
<b>Over-the-Counter Options Purchased—0.5%</b>					
AUD Currency Call <sup>17</sup>	BOA	USD	0.748	3/1/19	AUD 25,500,000 AUD 200,000 26,339
BRL Currency Call <sup>17</sup>	JPM	BRL	3.200	4/25/19	BRL 48,000,000 BRL 482,560 12,192
BRL Currency Put <sup>17</sup>	GSCO-OT	BRL	3.350	12/6/19	BRL 586,000 BRL 5,000 104,813
BRL Currency Call <sup>17</sup>	GSCO-OT	BRL	3.734	2/14/19	BRL 54,550,000 BRL 373,400 78,338
BRL Currency Call <sup>17</sup>	JPM	BRL	3.200	10/17/19	BRL 1,414,000 BRL 32,000 53,425
BRL Currency Call <sup>17</sup>	JPM	BRL	3.354	9/25/19	BRL 600,000 BRL 5,150 83,164
BRL Currency Call <sup>17</sup>	GSCO-OT	BRL	3.400	12/10/19	BRL 586,000 BRL 5,300 132,811
BRL Currency Call <sup>17</sup>	JPM	BRL	3.150	5/20/19	BRL 424,096 BRL 5,000 8,449
BRL Currency Call <sup>17</sup>	CITNA-B	BRL	3.200	4/25/19	BRL 48,000,000 BRL 512,000 12,192
BRL Currency Call <sup>17</sup>	JPM	BRL	3.000	5/16/19	BRL 550,000 BRL 5,000 4,148
BRL Currency Call <sup>17</sup>	GSCO-OT	BRL	3.150	5/20/19	BRL 424,096 BRL 5,000 8,449
CAD Currency Call <sup>17</sup>	SCB	CAD	1.295	2/1/19	CAD 56,980,000 CAD 194,250 7,806
CAD Currency Call <sup>17</sup>	SCB	CAD	1.298	1/18/19	CAD 9,170,000 CAD 129,750 871
CLP Currency Call <sup>17</sup>	GSCO-OT	CLP	665.000	2/11/19	CLP 10,714,000,000 CLP 133,000,000 42,535
CLP Currency Call <sup>17</sup>	CITNA-B	CLP	643.700	11/4/19	CLP 18,914,000,000 CLP 64,370,000 416,108
CLP Currency Call <sup>17</sup>	CITNA-B	CLP	650.000	2/21/19	CLP 11,336,500,000 CLP 97,500,000 22,673
EUR Currency Put <sup>17</sup>	BOA	SEK	9.250	4/29/20	EUR 2,800,000 EUR 10,000 670,628
EUR Currency Put <sup>17</sup>	JPM	JPY	126.400	1/25/19	EUR 21,000,000 EUR 200,000 297,028

Counterparty	Exercise Price	Expiration Date	Contracts	Notional Amount (000's)	Value		
Over-the-Counter Options Purchased (Continued)							
IDR Currency Call <sup>17</sup>	SCB	IDR	15050.000	9/5/19	IDR 361,682,350,000	2,558,500,000 \$	723,365
INR Currency Call <sup>17</sup>	GSCO-OT	INR	74.050	1/23/19	INR 555,375,000	INR 7,405,000	467,070
INR Currency Call <sup>17</sup>	GSCO-OT	INR	68.400	10/21/19	INR 565,000	INR 5,000	385,807
MXN Currency Call <sup>17</sup>	CITNA-B	MXN	18.578	8/15/19	MXN 139,332,500	MXN 1,393,328	75,936
MXN Currency Call <sup>17,20</sup>	CITNA-B	MXN	18.000	10/23/19	MXN 750,000	MXN 5,500	91,413
MXN Currency Call <sup>17</sup>	GSCO-OT	MXN	19.500	10/29/19	MXN 382,000,000	MXN 3,900,000	479,028
NOK Currency Call <sup>17</sup>	BOA	NOK	8.424	3/8/19	NOK 483,011,000	NOK 3,664,223	384,849
NOK Currency Call <sup>17</sup>	JPM	NOK	8.240	2/4/19	NOK 296,410,000	NOK 2,529,680	27,270
PLN Currency Call <sup>17</sup>	GSCO-OT	PLN	3.489	8/19/19	PLN 98,630,000	PLN 872,125	233,358
RUB Currency Call <sup>17</sup>	JPM	RUB	59.500	6/7/19	RUB 1,682,200,000	RUB 14,875,000	42,055
RUB Currency Call <sup>17</sup>	GSCO-OT	RUB	63.979	8/12/19	RUB 452,220,000	RUB 6,397,900	37,534
SEK Currency Call <sup>17</sup>	GSCO-OT	SEK	8.882	2/4/19	SEK 351,243,000	SEK 2,398,140	560,935
TRY Currency Put <sup>17</sup>	CITNA-B	TRY	4.000	5/23/19	TRY 710,000	TRY 10,000	6,869
TRY Currency Call <sup>17</sup>	GSCO-OT	TRY	6.000	10/16/19	TRY 90,000,000	TRY 600,000	969,930
ZAR Currency Call <sup>17</sup>	GSCO-OT	ZAR	13.597	8/15/19	ZAR 11,972,500	ZAR 1,019,738	17,707
ZAR Currency Call <sup>17</sup>	GSCO-OT	ZAR	13.250	8/12/19	ZAR 93,654,000	ZAR 1,325,000	95,714
Total Over-the-Counter Options Purchased (Cost \$8,567,928)							6,580,809

	Counterparty	Pay / Receive Floating Rate	Floating Rate	Fixed Rate	Expiration Date	Notional Amount (000's)		
Over-the-Counter Interest Rate Swaptions Purchased—0.4%								
Interest Rate Floor maturing 11/8/22 Call <sup>17</sup>	JPM	Receive	MAX((( 0.656%-1y)) * 10 * notional, 0] EUR EURIBOR	0.656%	11/8/22	EUR	36,600	2,020,402
Interest Rate Swap maturing 12/16/49 Put <sup>17</sup>	MSCO	Receive	Three-Month USD-LIBOR-BBA	3.762	12/12/19	USD	29,240	184,192
Interest Rate Swap maturing 3/16/21 Put <sup>17</sup>	GSCO-OT	Receive	Three-Month USD-LIBOR-BBA	2.975	3/12/19	USD	146,200	39,475
Interest Rate Swap maturing 8/19/20 Put <sup>17</sup>	GSCOI	Receive	Three-Month USD-LIBOR-BBA	3.350	5/14/19	USD	146,500	7,023
Interest Rate Cap maturing 12/12/19 Put <sup>17</sup>	GSCOI	Pay	If USISDA02 is less than or equal to 2.905%, then the greater of: (INDEX minus 0.095%) * 10 Or Zero, Otherwise zero	9.500	12/12/19	USD	29,240	597,081
Interest Rate Cap maturing 5/14/20 Put <sup>17</sup>	GSCOI	Pay	The greater of: 10 x (INDEX minus 0.6%) or Zero	60.000	5/14/20	USD	29,300	233,521
Interest Rate Swap maturing 12/16/49 Call <sup>17</sup>	MSCO	Pay	Three-Month USD-LIBOR-BBA	2.262	12/12/19	USD	29,240	441,885
Interest Rate Swap maturing 5/13/21 Call <sup>17</sup>	BAC	Pay	Three-Month USD-LIBOR-BBA	3.045	5/9/19	USD	228,755	2,031,193
Total Over-the-Counter Interest Rate Swaptions Purchased (Cost \$3,845,090)								5,554,772
Total Investments, at Value (Cost \$1,676,752,697)							110.7%	1,581,139,881
Net Other Assets (Liabilities)							(10.7)	(152,600,349)
Net Assets							100.0%	\$ 1,428,539,532

## Consolidated Footnotes to Statement of Investments

1. Represents securities sold under Rule 144A, which are exempt from registration under the Securities Act of 1933, as amended. These securities have been determined to be liquid under guidelines established by the Board of Trustees. These securities amount to \$389,215,362 or 27.25% of the Fund's net assets at period end.
2. Represents the current interest rate for a variable or increasing rate security, determined as [Referenced Rate + Basis-point spread].
3. Restricted security. The aggregate value of restricted securities at period end was \$13,247,534, which represents 0.93% of the Fund's net assets. See Note 4 of the accompanying Consolidated Notes. Information concerning restricted securities is as follows:

Security	Acquisition Dates	Cost	Value	Unrealized Appreciation/ (Depreciation)
Affinion Group, Inc., 12.50% Sr. Unsec. Nts., 11/10/22	1/15/13-11/10/18	\$ 899,049	\$ 764,927	\$ (134,122)
CHS/Community Health Systems, Inc., 8.125% Sec. Nts., 6/30/24	6/22/18	49,861	44,100	(5,761)
Clear Channel International BV, 8.75% Sr. Unsec. Nts., 12/15/20	8/9/17	269,522	268,312	(1,210)
Eagle Intermediate Global Holding BV/Ruyi US Finance LLC, 7.50% Sr. Sec. Nts., 5/1/25	9/27/18	280,163	267,686	(12,477)
EP Energy LLC/Everest Acquisition Finance, Inc., 9.375% Sec. Nts., 5/1/24	1/29/13-10/23/18	2,697,661	1,368,900	(1,328,761)



# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

## Consolidated Footnotes to Statement of Investments (Continued)

Security	Acquisition Dates	Cost	Value	Unrealized Appreciation/ (Depreciation)
GLS Auto Receivables Trust, Series 2018-1A, Cl. A, 2.82%, 7/15/22	1/30/18	\$ 642,210	\$ 640,082	(2,128)
Golden Nugget, Inc., 6.75% Sr. Unsec. Nts., 10/15/24	9/20/16-9/12/17	1,366,832	1,294,650	(72,182)
Hartford Financial Services Group, Inc. (The), 4.741% [US0003M+212.5] Jr. Sub. Nts., 2/12/47	1/18/18-1/22/18	670,914	552,922	(117,992)
HTA Group Ltd., 9.125% Sr. Unsec. Nts., 3/8/22	3/1/17-3/7/18	458,796	463,872	5,076
Minejesa Capital BV, 4.625% Sr. Sec. Nts., 8/10/30	11/9/17-5/11/18	2,605,058	2,380,923	(224,135)
Minejesa Capital BV, 5.625% Sr. Sec. Nts., 8/10/37	7/25/18-8/1/18	4,094,181	3,771,160	(323,021)
Titan International, Inc., 6.50% Sr. Sec. Nts., 11/30/23	11/9/17	990,000	891,000	(99,000)
Williams Scotsman International, Inc., 6.875% Sr. Sec. Nts., 8/15/23	7/31/18	560,000	539,000	(21,000)
		<b>\$ 15,584,247</b>	<b>\$ 13,247,534</b>	<b>\$ (2,336,713)</b>

4. Interest-Only Strips represent the right to receive the monthly interest payments on an underlying pool of mortgage loans. These securities typically decline in price as interest rates decline. Most other fixed income securities increase in price when interest rates decline. The principal amount of the underlying pool represents the notional amount on which current interest is calculated. The price of these securities is typically more sensitive to changes in prepayment rates than traditional mortgage-backed securities (for example, GNMA pass-throughs). Interest rates disclosed represent current yields based upon the current cost basis and estimated timing and amount of future cash flows. These securities amount to \$3,099,741 or 0.22% of the Fund's net assets at period end.

5. Interest rate is less than 0.0005%.

6. All or a portion of the security position is when-issued or delayed delivery to be delivered and settled after period end. See Note 4 of the accompanying Consolidated Notes.

7. This interest rate resets periodically. Interest rate shown reflects the rate in effect at period end. The rate on this variable rate security is not based on a published reference rate and spread but is determined by the issuer or agent based on current market conditions.

8. Zero coupon bond reflects effective yield on the original acquisition date.

9. Represents securities sold under Regulation S, which are exempt from registration under the Securities Act of 1933, as amended. These securities may not be offered or sold in the United States without an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933. These securities amount to \$134,430,151 or 9.41% of the Fund's net assets at period end.

10. This security is not accruing income because the issuer has missed an interest payment on it and/or is not anticipated to make future interest and/or principal payments. The rate shown is the contractual interest rate. See Note 4 of the accompanying Consolidated Notes.

11. The value of this security was determined using significant unobservable inputs. See Note 3 of the accompanying Consolidated Notes.

12. Security received as the result of issuer reorganization.

13. Interest or dividend is paid-in-kind, when applicable.

14. This bond has no contractual maturity date, is not redeemable and contractually pays an indefinite stream of interest.

15. All or a portion of this security is owned by the subsidiary. See Note 2 of the accompanying Consolidated Notes.

16. Denotes an inflation-indexed security: coupon or principal are indexed to a consumer price index.

17. Non-income producing security.

18. Rate shown is the 7-day yield at period end.

19. Is or was an affiliate, as defined in the Investment Company Act of 1940, as amended, at or during the reporting period, by virtue of the Fund owning at least 5% of the voting securities of the issuer or as a result of the Fund and the issuer having the same investment adviser. Transactions during the reporting period in which the issuer was an affiliate are as follows:

	Shares December 31, 2017	Gross Additions	Gross Reductions	Shares December 31, 2018
<b>Investment Company</b>				
Oppenheimer Institutional Government Money Market Fund, Cl. E	41,765,253	698,423,057	669,441,886	70,746,424
Oppenheimer Limited-Term Bond Fund, Cl. I	—	1,654,825	—	1,654,825
Oppenheimer Master Event-Linked Bond Fund, LLC	2,520,983	—	566,750	1,954,233
Oppenheimer Master Loan Fund, LLC	14,397,097	—	5,789,730	8,607,367
Oppenheimer Ultra-Short Duration Fund, Cl. Y	27,024,582	253,583	17,040,000	10,238,165
	<b>Value</b>	<b>Income</b>	<b>Realized Gain (Loss)</b>	<b>Change in Unrealized Gain (Loss)</b>
<b>Investment Company</b>				
Oppenheimer Institutional Government Money Market Fund, Cl. E	\$ 70,746,424	\$ 1,619,058	\$ —	\$ —
Oppenheimer Limited-Term Bond Fund, Cl. I	7,363,973	21,470	—	16,503
Oppenheimer Master Event-Linked Bond Fund, LLC	29,797,284	2,399,000 <sup>a</sup>	(723,081) <sup>a</sup>	(1,408,559) <sup>a</sup>
Oppenheimer Master Loan Fund, LLC	144,969,978	12,440,975 <sup>b</sup>	3,277,211 <sup>b</sup>	(11,799,913) <sup>b</sup>
Oppenheimer Ultra-Short Duration Fund, Cl. Y	51,088,443	1,274,377	(170,400)	(201,633)
Total	<b>\$ 303,966,102</b>	<b>\$ 17,754,880</b>	<b>\$ 2,383,730</b>	<b>\$ (13,393,602)</b>

a. Represents the amount allocated to the Fund from Oppenheimer Master Event-Linked Bond Fund, LLC.

b. Represents the amount allocated to the Fund from Oppenheimer Master Loan Fund, LLC.

20. Knock-out option becomes ineligible for exercise if at any time spot rates are less than or equal to 18 MXN per 1 USD.

Distribution of investments representing geographic holdings, as a percentage of total investments at value, is as follows:

Geographic Holdings (Unaudited)	Value	Percent
United States	\$ 1,014,127,291	63.8%
India	44,538,584	2.8
Indonesia	41,756,255	2.6
Mexico	37,315,255	2.4
South Africa	37,172,443	2.4
Brazil	32,597,157	2.2
Greece	31,485,222	2.0

<b>Geographic Holdings (Unaudited) (Continued)</b>		<b>Value</b>	<b>Percent</b>
Argentina	\$	30,871,517	2.0%
Spain		24,969,763	1.6
United Kingdom		21,309,379	1.3
Canada		19,547,384	1.2
France		18,585,398	1.2
Italy		16,877,735	1.1
Egypt		15,133,403	1.0
Switzerland		14,689,560	0.9
Peru		13,431,906	0.9
Colombia		12,793,054	0.8
Turkey		12,678,717	0.8
Ukraine		11,585,398	0.7
Netherlands		10,528,112	0.7
Dominican Republic		9,704,088	0.7
Chile		8,414,487	0.6
Thailand		8,315,837	0.5
China		6,914,373	0.4
Luxembourg		6,878,613	0.4
Poland		6,680,768	0.4
Kazakhstan		5,716,865	0.4
Nigeria		4,946,356	0.3
Angola		4,830,754	0.3
Israel		4,031,655	0.3
Sri Lanka		3,931,699	0.3
Ghana		3,436,237	0.2
Belgium		3,399,381	0.2
Ireland		3,367,461	0.2
Ecuador		2,999,622	0.2
Eurozone		2,988,058	0.2
Oman		2,636,811	0.2
United Arab Emirates		2,520,815	0.2
Gabon		2,171,868	0.1
Hungary		2,107,622	0.1
Mongolia		1,991,811	0.1
Supranational		1,955,249	0.1
Bermuda		1,779,099	0.1
Cayman Islands		1,708,750	0.1
Portugal		1,700,749	0.1
New Zealand		1,660,147	0.1
Iraq		1,317,049	0.1
Australia		1,215,358	0.1
Hong Kong		1,132,537	0.1
Azerbaijan		1,099,736	0.1
Russia		1,097,934	0.1
Senegal		1,092,493	0.1
Morocco		922,299	0.1
Singapore		815,185	0.1
Sweden		560,935	0.0
Mauritius		463,873	0.0
Zambia		451,000	0.0
Kenya		436,058	0.0
Panama		423,385	0.0
Uruguay		414,250	0.0
Norway		412,118	0.0
Trinidad and Tobago		264,688	0.0
Macau		238,275	0.0
<b>Total</b>	<b>\$</b>	<b>1,581,139,881</b>	<b>100.0%</b>

#### Forward Currency Exchange Contracts as of December 31, 2018

<b>Counterparty</b>	<b>Settlement Month(s)</b>	<b>Currency Purchased (000's)</b>	<b>Currency Sold (000's)</b>	<b>Unrealized Appreciation</b>	<b>Unrealized Depreciation</b>
BAC	02/2019	IDR 260,657,000	USD 18,139	\$ —	\$ 112,952
BAC	03/2019	KRW 2,937,600	USD 2,622	22,969	—
BAC	03/2019	MYR 760	USD 182	2,408	—
BAC	02/2019	USD 25,470	EUR 22,200	—	57,342
BAC	01/2019	USD 11,840	MXN 238,700	—	287,294
BAC	02/2019	USD 13,803	NOK 119,852	—	80,703
BAC	03/2019	USD 6,411	PLN 24,160	—	56,538
BAC	03/2019	USD 29,316	ZAR 419,790	405,175	—

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

## Forward Currency Exchange Contracts (Continued)

Counterparty	Settlement Month(s)	Currency Purchased (000's)	Currency Sold (000's)	Unrealized Appreciation	Unrealized Depreciation
BAC	03/2019	ZAR 114,990	USD 8,030	\$ —	\$ 110,987
BOA	02/2019	EUR 75	USD 86	—	179
BOA	03/2019	INR 276,100	USD 3,773	164,048	—
BOA	02/2019	JPY 1,847,000	USD 16,492	416,938	—
BOA	02/2019	USD 32,270	EUR 27,981	99,459	—
BOA	03/2019	USD 1,918	HUF 542,000	—	26,446
BOA	03/2019	USD 17,732	IDR 262,024,000	—	277,797
BOA	03/2019	USD 40,712	INR 2,979,300	—	1,770,185
BOA	02/2019	USD 28,077	NOK 239,533	328,997	—
BOA	03/2019	USD 8,255	THB 269,400	—	36,201
CITNA-B	02/2019 - 06/2019	BRL 86,853	USD 22,525	767,362	1,088,441
CITNA-B	03/2019	COP 23,809,000	USD 7,301	3,615	—
CITNA-B	02/2019	EUR 910	USD 1,075	—	28,226
CITNA-B	03/2019	RUB 251,100	USD 3,573	—	5,423
CITNA-B	04/2019	USD 2,716	BRL 9,750	222,658	—
CITNA-B	03/2019	USD 9,204	COP 29,419,000	178,291	—
CITNA-B	02/2019	USD 884	EUR 775	—	6,747
CITNA-B	02/2019 - 03/2019	USD 27,202	JPY 3,019,800	17,165	501,376
CITNA-B	01/2019	USD 18,009	MXN 365,500	—	560,588
CITNA-B	03/2019	USD 6,238	PEN 21,070	—	92
CITNA-B	10/2019	USD 3,466	TRY 22,230	—	185,520
DEU	02/2019	EUR 2,150	USD 2,473	1,547	2,530
DEU	02/2019	USD 38,489	EUR 33,435	110,049	70,161
GSCO-OT	01/2019 - 06/2019	BRL 68,496	USD 18,146	—	631,673
GSCO-OT	01/2019	COP 24,240,000	USD 7,551	—	92,424
GSCO-OT	02/2019	EUR 310	USD 357	—	526
GSCO-OT	02/2019 - 03/2019	JPY 1,457,982	USD 14,029	28,078	669,555
GSCO-OT	02/2019	NOK 448,183	USD 52,102	—	183,183
GSCO-OT	02/2019	SEK 160,580	USD 17,869	301,822	—
GSCO-OT	01/2019 - 06/2019	USD 20,225	BRL 78,526	547,232	421,496
GSCO-OT	02/2019	USD 4,966	EUR 4,320	—	1,199
GSCO-OT	02/2019	USD 3,500	IDR 51,957,000	—	93,176
GSCO-OT	01/2019	USD 8,570	MXN 173,241	—	240,051
GSCO-OT	10/2019	USD 5,475	TRY 39,450	—	1,004,808
GSCO-OT	08/2019	USD 3,039	ZAR 44,824	9,802	—
GSCO-OT	05/2019	ZAR 10,470	USD 730	—	15,618
HSBC	02/2019	AUD 6,500	USD 4,694	—	111,883
HSBC	02/2019	EUR 5,775	USD 6,631	8,670	428
HSBC	02/2019	USD 16,532	EUR 14,215	240,220	54,584
JPM	01/2019 - 02/2019	BRL 163,096	USD 42,780	22,940	743,389
JPM	02/2019	EUR 17,456	USD 20,410	193	339,599
JPM	09/2019	IDR 188,087,000	USD 11,898	707,222	—
JPM	02/2019	JPY 1,636,000	USD 14,726	248,421	—
JPM	02/2019	NOK 99,642	USD 11,952	—	408,636
JPM	03/2019	RUB 498,200	USD 7,207	—	128,734
JPM	01/2019 - 04/2019	USD 56,260	BRL 212,815	1,420,314	—
JPM	03/2019	USD 7,254	CLP 4,940,000	130,262	—
JPM	01/2019	USD 7,537	COP 24,240,000	78,336	—
JPM	02/2019	USD 18,507	EUR 15,925	195,704	—
JPM	02/2019	USD 14,002	IDR 208,700,000	—	430,862
JPM	02/2019	USD 14,690	JPY 1,636,000	—	283,596
JPM	02/2019	USD 26,036	NOK 219,980	670,922	117,817
JPM	03/2019	USD 1,367	RUB 91,600	65,254	—
JPM	03/2019	USD 8,836	TRY 49,820	—	202,449
JPM	08/2019	ZAR 44,824	USD 3,039	—	9,802
SCB	02/2019	EUR 1,460	USD 1,691	—	12,292
SCB	09/2019	USD 11,553	IDR 188,087,000	—	1,052,182
Total Unrealized Appreciation and Depreciation				\$ 7,416,073	\$ 12,515,690

## Futures Contracts as of December 31, 2018

Description	Buy/Sell	Expiration Date	Number of Contracts	Notional Amount (000's)	Value	Unrealized Appreciation/ (Depreciation)
Euro-BUND	Sell	3/07/19	110	EUR 20,436	\$ 20,611,355	\$ (175,310)
Euro-BUXL	Sell	3/07/19	67	EUR 13,524	13,865,339	(340,914)
Euro-OAT	Sell	3/07/19	78	EUR 13,471	13,476,770	(5,451)
United States Treasury Long Bonds	Buy	3/20/19	10	USD 1,444	1,460,000	16,483

**Futures Contracts (Continued)**

Description	Buy/Sell	Expiration Date	Number of Contracts		Notional Amount (000's)	Value	Unrealized Appreciation/ (Depreciation)
United States Treasury Long Bonds	Sell	3/20/19	106	USD	14,845 \$	15,476,000 \$	(631,069)
United States Treasury Nts., 10 yr.	Buy	3/20/19	153	USD	18,268	18,668,391	400,699
United States Treasury Nts., 10 yr.	Sell	3/20/19	296	USD	35,448	36,116,625	(669,000)
United States Treasury Nts., 2 yr.	Buy	3/29/19	94	USD	19,834	19,957,375	123,848
United States Treasury Nts., 2 yr.	Sell	3/29/19	571	USD	120,519	121,230,438	(711,474)
United States Treasury Nts., 5 yr.	Buy	3/29/19	133	USD	15,010	15,253,438	243,523
United States Ultra 10 yr.	Sell	3/20/19	8	USD	1,030	1,040,625	(10,763)
United States Ultra Bonds	Buy	3/20/19	68	USD	10,353	10,924,625	571,777
						<b>\$</b>	<b>(1,187,651)</b>

**Over-the-Counter Options Written at December 31, 2018**

Over the Counter Options Written at December 31, 2018								Notional Amount (000's)	
Description	Counterparty	Exercise Price	Expiration Date	Number of Contracts		Premiums Received	Value		
AUD Currency Call	BOA	USD 0.772	3/1/19	AUD (25,500,000)	AUD 200,000	\$ 60,042	\$ (6,274)		
AUD Currency Put	BOA	USD 0.719	3/1/19	AUD (25,500,000)	AUD 200,000	127,153	(675,658)		
BRL Currency Put <sup>1</sup>	GSCO-OT	BRL 4.500	12/10/19	BRL (586,000)	BRL 5,300	121,888	(100,326)		
BRL Currency Put <sup>2</sup>	GSCO-OT	BRL 4.500	12/6/19	BRL (586,000)	BRL 5,000	103,839	(99,854)		
BRL Currency Call	GSCO-OT	BRL 3.559	2/14/19	BRL (52,000,000)	BRL 355,900	68,861	(12,606)		
BRL Currency Put	GSCO-OT	BRL 4.018	2/14/19	BRL (58,700,000)	BRL 401,750	194,488	(142,179)		
CAD Currency Call	SCB	CAD 1.260	2/1/19	CAD (55,440,000)	CAD 189,000	119,284	(2,439)		
CAD Currency Put	SCB	CAD 1.341	1/18/19	CAD (9,480,000)	CAD 134,050	37,043	(132,597)		
CAD Currency Call	SCB	CAD 1.264	1/18/19	CAD (8,930,000)	CAD 126,400	18,249	(116)		
CAD Currency Put	SCB	CAD 1.339	2/1/19	CAD (58,916,000)	CAD 200,850	238,832	(917,676)		
CLP Currency Put	CITNA-B	CLP 710.000	2/21/19	CLP (12,383,000,000)	CLP 106,500,000	216,534	(160,979)		
CLP Currency Call	CITNA-B	CLP 615.000	2/21/19	CLP (10,726,000,000)	CLP 92,250,000	94,479	(10,726)		
CLP Currency Put	CITNA-B	CLP 785.750	11/4/19	CLP (23,088,000,000)	CLP 78,575,000	504,513	(392,496)		
CLP Currency Put	GSCO-OT	CLP 707.500	2/11/19	CLP (11,399,000,000)	CLP 141,500,000	168,705	(138,840)		
CLP Currency Call	GSCO-OT	CLP 635.000	2/11/19	CLP (10,230,500,000)	CLP 127,000,000	72,838	(7,570)		
COP Currency Put	CITNA-B	COP 3256.000	2/13/19	COP (47,689,000,000)	COP 325,600,000	247,672	(245,598)		
COP Currency Put	CITNA-B	COP 3162.000	1/15/19	COP (44,700,000,000)	COP 316,200,000	267,071	(402,300)		
COP Currency Put	GSCO-OT	COP 3340.000	3/4/19	COP (58,560,000,000)	COP 501,000,000	141,473	(203,789)		
COP Currency Call	GSCO-OT	COP 3065.000	3/4/19	COP (53,700,000,000)	COP 459,750,000	155,984	(55,311)		
COP Currency Call	JPM	COP 3162.000	1/15/19	COP (44,700,000,000)	COP 316,200,000	179,097	(44,700)		
COP Currency Put	JPM	COP 3316.000	3/12/19	COP (48,482,000,000)	COP 331,600,000	176,152	(222,532)		
COP Currency Call	JPM	COP 3038.000	3/12/19	COP (44,417,500,000)	COP 303,800,000	95,570	(42,641)		
EUR Currency Call	BOA	EUR 1.157	5/29/19	EUR (29,290,000)	EUR 100,000	703,561	(606,008)		
EUR Currency Put	GSCO-OT	ZAR 15.750	7/10/19	EUR (7,120,000)	EUR 75,000	233,186	(118,251)		
EUR Currency Call	JPM	JPY 131.800	1/25/19	EUR (21,000,000)	EUR 200,000	150,909	(14,538)		
EUR Currency Call	JPM	ZAR 17.438	7/10/19	EUR (7,120,000)	EUR 75,000	391,297	(354,006)		
EUR Currency Put	JPM	JPY 120.600	1/25/19	EUR (21,000,000)	EUR 200,000	102,757	(25,131)		
EUR Currency Call	SCB	EUR 1.156	5/29/19	EUR (43,940,000)	EUR 250,000	1,044,893	(929,841)		
IDR Currency Put	GSCO-OT	IDR 15000.000	7/10/19	IDR (390,000,000,000)	IDR 3,005,250,000	949,000	(390,000)		
IDR Currency Put	SCB	IDR 17550.000	9/5/19	IDR (421,762,500,000)	IDR 2,983,500,000	693,205	—		
INR Currency Call	GSCO-OT	INR 72.000	1/23/19	INR (540,000,000)	INR 7,200,000	21,226	(251,640)		
INR Currency Put	GSCO-OT	INR 76.950	1/23/19	INR (577,125,000)	INR 7,695,000	48,007	(1,154)		
INR Currency Put	GSCO-OT	INR 80.050	10/14/19	INR (1,131,600,000)	INR 8,005,000	282,723	(84,870)		
MXN Currency Put	CITNA-B	MXN 22.828	8/15/19	MXN (171,202,500)	MXN 1,712,108	192,431	(117,274)		
MXN Currency Put	GSCO-OT	MXN 19.500	1/4/19	MXN (257,300,000)	MXN 2,730,000	192,751	(133,539)		
MXN Currency Put	GSCO-OT	MXN 24.500	10/29/19	MXN (479,900,000)	MXN 4,900,000	438,766	(261,545)		
MXN Currency Call	JPM	MXN 20.000	1/3/19	MXN (235,000,000)	MXN 3,200,000	157,285	(224,895)		
NOK Currency Put	BOA	NOK 8.787	3/8/19	NOK (503,854,000)	NOK 3,822,345	417,269	(498,755)		
NOK Currency Call	BOA	NOK 8.153	3/8/19	NOK (467,500,000)	NOK 3,546,555	205,510	(84,417)		
NOK Currency Call	JPM	NOK 7.975	2/4/19	NOK (286,870,000)	NOK 2,448,325	114,449	(8,319)		
NOK Currency Put	JPM	NOK 8.600	2/4/19	NOK (309,360,000)	NOK 2,640,200	262,890	(492,192)		
PLN Currency Put	GSCO-OT	PLN 4.104	8/19/19	PLN (116,018,000)	PLN 1,025,875	566,590	(255,356)		
RUB Currency Call	CITNA-B	RUB 67.000	2/13/19	RUB (981,000,000)	RUB 6,700,000	235,952	(52,003)		
RUB Currency Put	GSCO-OT	RUB 83.540	8/12/19	RUB (590,480,000)	RUB 8,354,000	148,808	(92,115)		
RUB Currency Put	JPM	RUB 70.000	6/7/19	RUB (1,979,100,000)	RUB 17,500,000	793,217	(1,236,937)		
SEK Currency Put	GSCO-OT	SEK 9.285	2/4/19	SEK (367,159,500)	SEK 2,506,815	295,404	(33,411)		
SEK Currency Call	GSCO-OT	SEK 8.587	2/4/19	SEK (339,557,000)	SEK 2,318,355	133,664	(93,039)		
SEK Currency Put	JPM	SEK 9.080	1/23/19	SEK (149,000,000)	SEK 454,000	215,459	(24,138)		
TRY Currency Put	GSCO-OT	TRY 8.800	10/16/19	TRY (132,000,000)	TRY 568,080	667,170	(174,504)		
ZAR Currency Call	CITNA-B	ZAR 13.500	5/7/19	ZAR (98,900,000)	ZAR 1,350,000	160,804	(84,955)		
ZAR Currency Call	GSCO-OT	ZAR 13.286	2/26/19	ZAR (97,296,000)	ZAR 996,450	101,573	(22,408)		
ZAR Currency Put	GSCO-OT	ZAR 17.916	8/12/19	ZAR (126,631,000)	ZAR 1,791,550	173,483	(96,113)		
ZAR Currency Put	GSCO-OT	ZAR 18.208	8/15/19	ZAR (136,560,000)	ZAR 1,365,600	284,250	(92,178)		

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

## Over-the-Counter Options Written (Continued)

Description	Counterparty	Exercise Price	Expiration Date	Number of Contracts	Notional Amount (000's)	Premiums Received	Value
ZAR Currency Put	GSCO-OT	ZAR 14.978	2/26/19	ZAR (109,683,600)	ZAR 1,123,313	\$ 83,272	\$ (122,740)
ZAR Currency Put	GSCO-OT	ZAR 14.646	5/27/19	ZAR (102,522,000)	ZAR 1,464,600	187,628	(322,022)
Total Over-the-Counter Options Written						<b>\$ 14,059,156</b>	<b>\$ (11,315,501)</b>

Total Over-the-Counter Options Written

1. Knock-out option becomes ineligible for exercise if at any time spot rates are less than or equal to 3.6 BRL per 1 USD.
2. Knock-out option becomes ineligible for exercise if at any time spot rates are less than or equal to 3.6 BRL per 1 USD.

## Centrally Cleared Credit Default Swaps at December 31, 2018

Reference Asset	Buy/Sell Protection	Fixed Rate	Maturity Date	Notional Amount (000's)	Premiums Received/(Paid)	Value	Unrealized Appreciation/(Depreciation)
CDX.EM.30	Buy	1.000%	12/20/23	USD 2,000	\$ (95,222)	\$ 93,232	\$ (1,990)
CDX.EM.30	Buy	1.000	12/20/23	USD 2,000	(97,622)	93,232	(4,390)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(47,956)	46,616	(1,340)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(48,811)	46,616	(2,195)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(44,311)	46,616	2,305
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(45,311)	46,616	1,305
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(46,856)	46,616	(240)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(46,911)	46,616	(295)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(47,111)	46,616	(495)
CDX.EM.30	Buy	1.000	12/20/23	USD 1,000	(45,411)	46,616	1,205
CDX.HY.31	Sell	5.000	12/20/23	USD 3,000	(174,373)	63,293	(111,080)
Federative Republic of Brazil	Buy	1.000	12/20/23	USD 1,750	(159,965)	81,719	(78,246)
Federative Republic of Brazil	Sell	1.000	6/20/22	USD 2,500	154,768	(48,407)	106,361
People's Republic of China	Buy	1.000	12/20/23	USD 4,500	81,048	(70,608)	10,440
Petrobras Global Finance BV	Sell	1.000	12/20/20	USD 1,000	10,092	(9,633)	459
Petrobras Global Finance BV	Sell	1.000	12/20/20	USD 1,000	10,178	(9,633)	545
Republic of South Africa	Buy	1.000	12/20/23	USD 1,000	(61,012)	53,574	(7,438)
Russian Federation	Buy	1.000	12/20/23	USD 2,000	(68,304)	46,893	(21,411)
Turkey Government International	Buy	1.000	12/20/23	USD 1,000	(122,432)	109,209	(13,223)
Turkey Government International	Buy	1.000	12/20/23	USD 1,000	(114,057)	109,209	(4,848)
United Mexican States	Buy	1.000	12/20/23	USD 3,250	(51,730)	78,554	26,824
Total Cleared Credit Default Swaps						<b>\$ (1,061,309)</b>	<b>\$ 963,562</b>

## Over-the-Counter Credit Default Swaps at December 31, 2018

Reference Asset	Counterparty	Buy/Sell Protection	Fixed Rate	Maturity Date	Notional Amount (000's)	Premiums Received/(Paid)	Value	Unrealized Appreciation/(Depreciation)
Hellenic Republic	BAC	Sell	1.000%	6/20/25	USD 1,414	\$ 235,247	\$ (272,347)	\$ (37,100)
Hellenic Republic	BAC	Sell	1.000	6/20/25	USD 3,534	529,497	(680,674)	(151,177)
Hellenic Republic	BAC	Sell	1.000	12/20/25	USD 3,400	528,719	(700,057)	(171,338)
Hellenic Republic	BAC	Sell	1.000	12/20/19	USD 2,350	35,260	(31,527)	3,733
Hellenic Republic	GSCOI	Sell	1.000	6/20/25	USD 1,410	222,469	(271,576)	(49,107)
Idbi Bank Ltd./difc Dubai	BAC	Sell	1.000	12/20/22	USD 1,000	32,421	(27,427)	4,994
Idbi Bank Ltd./difc Dubai	BNP	Sell	1.000	12/20/22	USD 1,000	30,175	(27,427)	2,748
Oriental Republic of Uruguay	BOA	Sell	1.000	12/20/21	USD 2,697	48,742	15,642	64,384
Republic Of Italy Government I	BAC	Buy	1.000	12/20/23	USD 7,070	(523,946)	327,404	(196,542)
State Bank of India	BNP	Sell	1.000	9/20/19	USD 1,740	71,791	9,634	81,425
Total Over-the-Counter Credit Default Swaps						<b>\$ 1,210,375</b>	<b>\$ (1,658,355)</b>	<b>\$ (447,980)</b>

The table that follows shows the undiscounted maximum potential payment by the Fund related to selling credit protection in credit default swaps:

Type of Reference Asset on which the Fund Sold Protection	Total Maximum Potential Payments for Selling Credit Protection (Undiscounted)	Amount Recoverable*	Reference Asset Rating Range**(Unaudited)
Non-Investment Grade Corporate Debt Indexes	\$ 3,000,000	\$ —	BB
Non-Investment Grade Single Name Corporate Debt	4,000,000	—	BB+ to BB
Investment Grade Single Name Corporate Debt	1,740,000	—	BBB-
Investment Grade Sovereign Debt	2,697,000	—	BBB
Non-Investment Grade Sovereign Debt	14,608,000	1,750,000	BB- to BB
Total USD	<b>\$ 26,045,000</b>	<b>\$ 1,750,000</b>	

\*Amounts recoverable includes potential payments from related purchased protection for instances where the Fund is the seller of protection. In addition, the Fund has no recourse provisions under the credit derivatives and holds no collateral which can offset or reduce potential payments under a triggering event.

\*\*The period end reference asset security ratings, as rated by any rating organization, are included in the equivalent Standard & Poor's rating category. The reference asset rating represents

the likelihood of a potential credit event on the reference asset which would result in a related payment by the Fund.

# **Centrally Cleared Interest Rate Swaps at December 31, 2018**

Counterparty	Pay/Receive Floating Rate	Floating Rate	Fixed Rate	Maturity Date		Notional Amount (000's)	Premiums Received / (Paid)	Value	Unrealized Appreciation/ (Depreciation)
BAC	Receive	Six-Month JPY BBA LIBOR	0.296%	11/29/27	JPY	4,654,000 \$	59 \$	(632,916) \$	(632,857)
BAC	Receive	Six-Month EUR EURIBOR	1.123	3/8/28	EUR	2,475	—	(129,206)	(129,206)
BNP	Pay	Six-Month HUF-BUBOR-Reuters	1.210	10/26/20	HUF	2,101,000	—	59,849	59,849
BNP	Receive	Six-Month HUF-BUBOR-Reuters	3.280	10/26/28	HUF	475,700	—	(180,632)	(180,632)
BNP	Pay	MXN TIIE BANXICO	8.000	8/13/20	MXN	311,315	—	(86,042)	(86,042)
BOA	Pay	Three-Month USD BBA LIBOR	2.905	12/17/20	USD	146,500	—	645,013	645,013
BOA	Pay	Three-Month USD BBA LIBOR	2.915	12/17/20	USD	131,800	—	605,837	605,837
CITNA-B	Pay	CLICP	2.901	8/9/19	CLP	9,271,500	—	(5,973)	(5,973)
CITNA-B	Pay	Six-Month PLN WIBOR WIBO	2.990	11/17/27	PLN	5,770	—	73,443	73,443
CITNA-B	Pay	Six-Month HUF BUBOR	2.205	3/8/28	HUF	825,000	—	62,897	62,897
CITNA-B	Receive	JIBA3M	7.250	7/10/20	ZAR	104,000	—	291	291
DEU	Pay	MXN TIIE BANXICO	8.140	10/19/20	MXN	322,900	—	(66,573)	(66,573)
DEU	Pay	JIBA3M	8.420	8/29/28	ZAR	62,800	—	78,759	78,759
DEU	Receive	JIBA3M	7.500	8/15/20	ZAR	136,300	—	(36,322)	(36,322)
DEU	Pay	Three-Month ZAR JIBAR SAFEX	7.675	2/21/22	ZAR	26,465	—	12,505	12,505
DEU	Receive	JIBA3M	7.120	6/29/19	ZAR	202,850	—	4,116	4,116
GSCOI	Receive	BZDI	8.235	1/2/20	BRL	45,400	—	(256,390)	(256,390)
GSCOI	Pay	EUR006M	1.413	7/4/44	EUR	1,980	—	12,328	12,328
GSCOI	Pay	EUR006M	1.482	7/4/44	EUR	3,200	—	107,751	107,751
GSCOI	Pay	MXN TIIE BANXICO	8.770	10/29/20	MXN	324,700	—	42,184	42,184
GSCOI	Pay	EUR006M	0.861	8/15/27	EUR	8,030	—	184,792	184,792
GSCOI	Pay	MXN TIIE BANXICO	7.995	10/15/20	MXN	300,000	—	(81,849)	(81,849)
GSCOI	Receive	SORF6M	2.335	10/16/21	SGD	22,600	—	(251,673)	(251,673)
GSCOI	Pay	Three-Month COP IBR OIS Compound	6.500	11/9/28	COP	6,000,000	—	53,034	53,034
GSCOI	Pay	MXN TIIE BANXICO	8.015	10/9/20	MXN	320,000	—	(84,508)	(84,508)
GSCOI	Pay	MXN TIIE BANXICO	7.760	9/25/20	MXN	312,000	—	(134,703)	(134,703)
GSCOI	Pay	COOVIBR	4.610	6/7/20	COP	20,710,000	—	17,629	17,629
GSCOI	Pay	BZDI	11.730	1/2/25	BRL	17,600	—	423,452	423,452
GSCOI	Pay	EUR006M	1.553	7/4/44	EUR	4,331	—	224,423	224,423
GSCOI	Pay	MXN TIIE BANXICO	8.210	1/30/19	MXN	538,000	—	(11,102)	(11,102)
GSCOI	Pay	MXN TIIE BANXICO	8.480	10/27/20	MXN	155,730	—	(19,377)	(19,377)
GSCOI	Pay	IRS P00.00R00.00 10/15/25 GOLDMAN SACH SHORT	3.450	10/15/25	GBP	6,930	—	(46,118)	(46,118)
JPM	Pay	MXN TIIE BANXICO	8.880	10/26/28	MXN	83,200	—	15,224	15,224
JPM	Pay	MXN TIIE BANXICO	8.750	10/29/20	MXN	649,000	—	72,935	72,935
JPM	Pay	BZDI	10.940	1/2/23	BRL	22,770	—	396,878	396,878
JPM	Pay	BZDI	8.245	1/4/21	BRL	31,950	—	137,370	137,370
JPM	Pay	COOVIBR	4.890	10/17/20	COP	46,900,000	—	109,354	109,354
JPM	Pay	Six-Month HUF BUBOR	1.865	1/24/28	HUF	375,735	—	(9,221)	(9,221)
JPM	Pay	Three-Month ZAR JIBAR SAFEX	7.930	11/27/22	ZAR	15,000	—	14,302	14,302
JPM	Pay	MXN TIIE BANXICO	8.600	10/27/20	MXN	158,670	—	(3,090)	(3,090)
MSCO	Pay	EUR006M	0.791	2/15/28	EUR	9,650	—	46,729	46,729
MSCO	Pay	Three-Month USD BBA LIBOR	2.856	12/9/22	USD	44,000	—	299,535	299,535
SIB	Pay	MXN TIIE BANXICO	9.280	11/22/28	MXN	90,500	—	139,929	139,929
SIB	Pay	BZDI	9.825	7/1/20	BRL	500,000	—	1,141,307	1,141,307
Total of Centrally Cleared Interest Rate Swaps						\$	59 \$	2,946,171 \$	2,946,230

# CONSOLIDATED STATEMENT OF INVESTMENTS Continued

## Over-the-Counter Interest Rate Swaps at December 31, 2018

Counterparty	Pay/Receive Floating Rate	Floating Rate	Fixed Rate	Maturity Date	Notional Amount (000's)	Premiums Received / (Paid)	Value	Unrealized Appreciation/ (Depreciation)
BOA	Pay	Six-Month INR FBIL MIBOR OIS Compound	6.330%	1/31/22 INR	210,000	\$ — \$	4,012 \$	4,012
BOA	Pay	Six-Month THB THBFIX	2.200	3/20/22 THB	99,500	—	34,818	34,818
BOA	Pay	NSERO	6.623	3/20/20 INR	2,035,500	—	80,988	80,988
BOA	Receive	Six-Month INR FBIL MIBOR OIS Compound	6.620	3/20/23 INR	458,000	—	(85,355)	(85,355)
GSCOI	Pay	Six-Month CLP TNA	3.620	2/8/23 CLP	1,822,500	—	11,582	11,582
GSCOI	Receive	KWCDC	1.970	8/22/20 KRW	42,846,005	—	(67,388)	(67,388)
JPM	Receive	Three-Month MYR KLIBOR BNM	4.005	2/21/22 MYR	13,230	—	(30,878)	(30,878)
SCB	Pay	Three-Month MYR KLIBOR BNM	3.310	8/19/21 MYR	45,000	—	(103,906)	(103,906)
Total of Over-the-Counter Interest Rate Swaps						\$ — \$	(156,127) \$	(156,127)

## Over-the-Counter Total Return Swaps at December 31, 2018

Reference Asset	Counterparty	Pay/Receive Total Return*	Floating Rate	Maturity Date	Notional Amount (000's)	Value	Unrealized Appreciation/ (Depreciation)
IBOXX EUR Liquid High Yield Index Series 1 Version 1	JPM	Receive	EUR-EURIBOR	6/26/19 EUR	7,068	\$ (265,388) \$	(265,388)
IBOXX EUR Liquid High Yield Index Series 1 Version 1	BOA	Receive	EUR-EURIBOR	6/26/19 EUR	3,657	(135,533)	(135,533)
IBOXX EUR Liquid High Yield Index Series 1 Version 1	JPM	Receive	EUR-EURIBOR	6/26/19 EUR	22,000	(321,251)	(321,251)
Total Over-the-Counter Total Return Swaps						\$ (722,172) \$	(722,172)

\* Fund will pay or receive the total return of the reference asset depending on whether the return is positive or negative. For contracts where the Fund has elected to receive the total return of the reference asset if positive, it will be responsible for paying the floating rate and the total return of the reference asset if negative. If the Fund has elected to pay the total return of the reference asset if positive, it will receive the floating rate and the total return of the reference asset if negative.

## Over-the-Counter Credit Default Swaptions Written at December 31, 2018

Description	Counterparty	Buy/Sell Protection	Reference Asset	Fixed Rate	Expiration Date	Notional Amount (000's)	Premiums Received	Value
Credit Default Swap maturing 12/20/23 Put	JPM	Sell	ITRAXX Europe Crossover Series 30 Version 2	5.000%	2/20/19 EUR	18,300	\$ 234,170 \$	(154,214)

## Over-the-Counter Interest Rate Swaptions Written at December 31, 2018

Description	Counterparty	Pay/Receive Floating Rate	Floating Rate	Fixed Rate	Expiration Date	Notional Amount (000's)	Premiums Received	Value
Interest Rate Swap maturing 5/14/29 Call	BAC	Receive	Three-Month USD-LIBOR-BBA	3.103%	5/9/19 USD	49,420	\$ 1,088,935 \$	(1,817,358)
Interest Rate Swap maturing 9/22/22 Call	BOA	Receive	Three-Month USD-LIBOR-BBA	3.118	9/18/20 USD	72,910	575,989	(1,113,333)
Interest Rate Swap maturing 3/6/29 Put	BOA	Pay	Three-Month USD-LIBOR-BBA	3.150	3/4/19 USD	33,700	150,918	(26,118)
Interest Rate Swap maturing 11/19/22 Call	BOA	Receive	Three-Month USD-LIBOR-BBA	3.112	11/15/19 USD	146,500	1,133,544	(2,748,980)
Interest Rate Swap maturing 2/14/29 Call	BOA	Receive	Three-Month CAD-BA-CDOR	2.888	2/14/19 CAD	33,700	226,696	(888,553)
Interest Rate Swap maturing 3/16/21 Put	GSCOI	Pay	Three-Month USD-LIBOR-BBA	3.095	3/12/19 USD	146,200	84,796	(26,363)
Interest Rate Swap maturing 3/16/21 Put	GSCOI	Pay	Three-Month USD-LIBOR-BBA	3.215	3/12/19 USD	146,200	43,860	(18,998)
Interest Rate Swap maturing 8/19/20 Put	GSCOI	Pay	Three-Month USD-LIBOR-BBA	3.350	2/14/19 USD	146,500	43,950	(466)
Interest Rate Swap maturing 3/6/29 Put	JPM	Pay	Three-Month USD-LIBOR-BBA	3.125	3/4/19 USD	65,900	342,863	(59,670)
Interest Rate Floor maturing 11/9/22 Call	JPM	Receive	3 month, MAX[(-0.034% minus EUR EURIBOR) * 10 * Notional, 0]	0.034	11/9/22 EUR	36,600	503,605	(869,301)



## Over-the-Counter Interest Rate Swaptions Written (Continued)

Description	Counterparty	Pay/Receive Floating Rate	Floating Rate	Fixed Rate	Expiration Date	Notional	Amount (000's)	Premiums Received	Value
Interest Rate Floor maturing 11/9/22 Call	JPM	Receive	3 month, MAX[(0.306% minus EUR EURIBOR) * 10 * Notional, 0]	0.306%	11/9/22	EUR	36,600 \$	923,275 \$	(1,570,865)
Interest Rate Swap maturing 2/12/24 Call	JPM	Receive	Six-Month AUD-BBR-BBSW	2.620	2/11/19	AUD	44,000	129,186	(573,719)
Interest Rate Swap maturing 2/11/24 Call	JPM	Receive	Six-Month AUD-BBR-BBSW	2.620	2/8/19	AUD	44,000	133,106	(573,896)
Interest Rate Swap maturing 1/22/21 Put	JPM	Pay	MXN TIIE BANXICO	8.730	1/24/19	MXN	637,000	132,888	(54,666)
Interest Rate Swap maturing 9/21/21 Call	JPM	Receive	Three-Month USD-LIBOR-BBA	3.145	9/18/19	USD	145,820	371,841	(926,839)
Interest Rate Swap maturing 12/9/22 Call	MSCO	Receive	Three-Month USD-LIBOR-BBA	2.356	12/7/20	USD	167,000	801,600	(1,329,080)
Interest Rate Swap maturing 1/16/49 Call	MSCO	Receive	Three-Month USD-LIBOR-BBA	3.009	1/14/19	USD	8,050	100,625	(291,542)
Interest Rate Swap maturing 1/16/49 Put	MSCO	Pay	Three-Month USD-LIBOR-BBA	3.009	1/14/19	USD	8,050	100,625	(8,128)
Interest Rate Swap maturing 11/19/21 Put	NOM	Pay	Three-Month USD-LIBOR-BBA	3.165	11/15/19	USD	73,200	366,000	(103,256)
Interest Rate Swap maturing 11/19/21 Call	NOM	Receive	Three-Month USD-LIBOR-BBA	2.915	11/15/19	USD	124,500	402,794	(1,172,926)
Interest Rate Swap maturing 11/8/22 Call	NOM	Receive	Three-Month USD-LIBOR-BBA	3.000	11/6/19	USD	109,800	538,020	(1,771,253)
Interest Rate Swap maturing 11/8/22 Put	NOM	Pay	Three-Month USD-LIBOR-BBA	3.263	11/6/19	USD	54,900	425,475	(92,394)
Total Over-the-Counter Interest Rate Swaptions Written							<b>\$ 8,620,591</b>	<b>\$ (16,037,704)</b>	

### Glossary:

#### Counterparty Abbreviations

BAC	Barclays Bank plc
BNP	BNP Paribas
BOA	Bank of America NA
CITNA-B	Citibank NA
DEU	Deutsche Bank AG
GSCOI	Goldman Sachs International
GSCO-OT	Goldman Sachs Bank USA
HSBC	HSBC Bank USA NA
JPM	JPMorgan Chase Bank NA
MSCO	Morgan Stanley Capital Services, Inc.
NOM	Nomura Global Financial Products, Inc.
SCB	Standard Chartered Bank
SIB	Banco Santander SA

#### Currency abbreviations indicate amounts reporting in currencies

ARS	Argentine Peso
AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CLP	Chilean Peso
COP	Colombian Peso
EGP	Egyptian Pounds
EUR	Euro
GBP	British Pound Sterling
HUF	Hungarian Forint
IDR	Indonesian Rupiah
INR	Indian Rupee
JPY	Japanese Yen
KRW	South Korean Won
MXN	Mexican Nuevo Peso
MYR	Malaysian Ringgit
NOK	Norwegian Krone
PEN	Peruvian New Sol
PLN	Polish Zloty
RUB	Russian Ruble
SEK	Swedish Krona
SGD	Singapore Dollar
THB	Thailand Baht
TRY	New Turkish Lira



## CONSOLIDATED STATEMENT OF INVESTMENTS Continued

### Currency abbreviations indicate amounts reporting in currencies (Continued)

UYU	Uruguay Peso
ZAR	South African Rand

### Definitions

30YR CMT	30 Year Constant Maturity Treasury
BA-CDOR	Canada Bankers Acceptances Deposit Offering Rate
BANXICO	Banco de Mexico
BBA	British Bankers' Association
BBA LIBOR	British Bankers' Association London - Interbank Offered Rate
BBR	Bank Bill Rate
BBSW	Bank Bill Swap Reference Rate (Australian Financial Market)
BNM	Bank Negara Malaysia
BUBOR	Budapest Interbank Offered Rate
BUND	German Federal Obligation
BUXL	German Federal Obligation
BZDI	Brazil Interbank Deposit Rate
CDOR	Canada Bankers Acceptances Rate
CDX.IM.23	Market CDX Emerging Markets Index
CDX.HY.31	Market CDX High Yield Index
CLICP	Sinacofi Chile Interbank Rate Average
COOVIBR	Colombia IBR Overnight Nominal interbank Reference Rate
EURIBOR	Euro Interbank Offered Rate
EUR006M	EURIBOR 6 Month ACT/360
EUSA5	EUR Swap Annual 5 Year
EUSA8	EUR Swap Annual 8 Year
EUSA10	EUR Swap Annual 10 Year
EUSA11	EUR Swap Annual 11 Year
FBIL	Financial Benchmarks India Private Ltd.
H15T5Y	US Treasury Yield Curve Rate T Note Constant Maturity 5 Year
H15T10Y	US Treasury Yield Curve Rate T Note Constant Maturity 10 Year
H15T1Y	US Treasury Yield Curve Rate T Note Constant Maturity 1 Year
IBR	Indicador Bancario de Referencia
ICE LIBOR	Intercontinental Exchange London Interbank Offered Rate
INDEX	10 year USD CMS minus 2 year USD CMS
ITRAXX Europe Crossover Series 30 Version 2	Credit Default Swap Trading Index for a Specific Basket of Securities
JIBA3M	South Africa Johannesburg Interbank Agreed Rate 3 Month
JIBAR SAFEX	South Africa Johannesburg Interbank Agreed Rate/Futures Exchange
KLIBOR	Kuala Lumpur Interbank Offered Rate
KWCDC	South Korean Won Index
LIBOR	London Interbank Offered Rate
LIBOR01M	ICE LIBOR USD 1 Month
LIBOR4	London Interbank Offered Rate-Quarterly
LIBOR12	London Interbank Offered Rate-Monthly
MIBOR	Mumbai Interbank Offered Rate
NSERO	India Rupee Floating Rate
OAT	French Government Bonds
OIS	Overnight Index Swap
SORF6M	Association of Banks in Singapore Swap Offer Rate Fixing 6 Month
THBFIX	Thai Baht Interest Rate Fixing
TIIE	Interbank Equilibrium Interest Rate
TNA	Non-Deliverable CLP Camara
US0001M	ICE LIBOR USD 1 Month
US0003M	ICE LIBOR USD 3 Month
USISDA02	USD ICE Swap Rate 2 Year
USISDA05	USD ICE Swap Rate 11:00am NY 5 Year
USSW5	USD Swap Semi 30/360 5 Year
WIBOR WIBO	Poland Warsaw Interbank Offer Bid Rate

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES December 31, 2018

<b>Assets</b>	
Investments, at value—see accompanying consolidated statement of investments:	
Unaffiliated companies (cost \$1,358,218,880)	\$ 1,277,173,779
Affiliated companies (cost \$318,533,817)	303,966,102
	<u>1,581,139,881</u>
Cash	16,347,124
Cash—foreign currencies (cost \$1,540,466)	1,442,807
Cash used for collateral on futures	2,219,000
Cash used for collateral on OTC derivatives	23,029,000
Cash used for collateral on centrally cleared swaps	6,721,882
Cash used for collateral on forward roll transactions	93,000
Unrealized appreciation on forward currency exchange contracts	7,416,073
Swaps, at value (net premiums paid \$403,413)	484,080
Centrally cleared swaps, at value (premiums paid \$1,317,395)	6,083,709
Receivables and other assets:	
Investments sold (including \$30,128,739 sold on a when-issued or delayed delivery basis)	30,704,718
Interest, dividends and principal paydowns	18,533,873
Variation margin receivable	73,625
Shares of beneficial interest sold	43,183
Other	473,201
Total assets	<u>1,694,805,156</u>
<b>Liabilities</b>	
Unrealized depreciation on forward currency exchange contracts	12,515,690
Options written, at value (premiums received \$14,059,156)	11,315,501
Swaps, at value (premiums received \$1,613,788)	3,020,734
Centrally cleared swaps, at value (premiums received \$256,145)	2,173,976
Swaptions written, at value (premiums received \$8,854,761)	16,191,918
Payables and other liabilities:	
Investments purchased (including \$205,787,303 purchased on a when-issued or delayed delivery basis)	206,800,857
Shares of beneficial interest redeemed	13,328,331
Distribution and service plan fees	233,167
Variation margin payable	172,244
Trustees' compensation	134,336
Shareholder communications	59,145
Other	319,725
Total liabilities	<u>266,265,624</u>
<b>Net Assets</b>	<u><b>\$ 1,428,539,532</b></u>
<b>Composition of Net Assets</b>	
Par value of shares of beneficial interest	\$ 299,811
Additional paid-in capital	1,647,796,481
Total accumulated loss	(219,556,760)
<b>Net Assets</b>	<u><b>\$ 1,428,539,532</b></u>
<b>Net Asset Value Per Share</b>	
Non-Service Shares:	
Net asset value, redemption price per share and offering price per share (based on net assets of \$346,706,274 and 74,357,124 shares of beneficial interest outstanding)	\$4.66
Service Shares:	
Net asset value, redemption price per share and offering price per share (based on net assets of \$1,081,833,258 and 225,453,677 shares of beneficial interest outstanding)	\$4.80

See accompanying Notes to Consolidated Financial Statements.

# **CONSOLIDATED STATEMENT OF OPERATIONS** For the Year Ended December 31, 2018

<b>Allocation of Income and Expenses from Master Funds<sup>1</sup></b>	
Net investment income allocated from Oppenheimer Master Event-Linked Bond Fund, LLC:	
Interest	\$ 2,378,221
Dividends	20,779
Net expenses	(147,112)
Net investment income allocated from Oppenheimer Master Event-Linked Bond Fund, LLC	2,251,888
Net investment income allocated from Oppenheimer Master Loan Fund, LLC	
Interest	12,180,676
Dividends	260,299
Net expenses	(795,865)
Net investment income allocated from Oppenheimer Master Loan Fund, LLC	11,645,110
Total allocation of net investment income from master funds	13,896,998
<b>Investment Income</b>	
Interest — unaffiliated companies (net of foreign withholding taxes of \$636,862)	72,289,122
Fee income on when-issued securities	1,703,225
Dividends:	
Unaffiliated companies	1,239,002
Affiliated companies	2,914,905
Total investment income	78,146,254
<b>Expenses</b>	
Management fees	9,817,868
Distribution and service plan fees — service shares	2,994,145
Transfer and shareholder servicing agent fees:	
Non-Service shares	462,335
Service shares	1,437,190
Shareholder communications:	
Non-Service shares	58,244
Service shares	180,618
Custodian fees and expenses	187,542
Trustees' compensation	58,693
Borrowing fees	51,162
Other	655,366
Total expenses	15,903,163
Less reduction to custodian expenses	(6,761)
Less waivers and reimbursements of expenses	(1,094,392)
Net expenses	14,802,010
<b>Net Investment Income</b>	<b>77,241,242</b>

<b>Realized and Unrealized Gain (Loss)</b>	
Net realized gain (loss) on:	
Investment transactions in:	
Unaffiliated companies (net of foreign capital gains tax of \$63,121)	\$ (36,366,957)
Affiliated companies	(170,400)
Option contracts written	(10,098,095)
Futures contracts	(4,393,486)
Foreign currency transactions	(563,751)
Forward currency exchange contracts	12,345,407
Swap contracts	121,196
Swaption contracts written	6,029,807
Net realized gain (loss) allocated from:	
Oppenheimer Master Event-Linked Bond Fund, LLC	(723,081)
Oppenheimer Master Loan Fund, LLC	3,277,211
Net realized loss	(30,542,149)
Net change in unrealized appreciation/(depreciation) on:	
Investment transactions in:	
Unaffiliated companies	(96,495,492)
Affiliated companies	(185,130)
Translation of assets and liabilities denominated in foreign currencies	191,463
Forward currency exchange contracts	(3,914,697)
Futures contracts	(2,143,659)
Option contracts written	2,455,973
Swap contracts	686,096
Swaption contracts written	(7,729,374)
Net change in unrealized appreciation/(depreciation) allocated from:	
Oppenheimer Master Event-Linked Bond Fund, LLC	(1,408,559)
Oppenheimer Master Loan Fund, LLC	(11,799,913)
Net change in unrealized appreciation/(depreciation)	(120,343,292)
<b>Net Decrease in Net Assets Resulting from Operations</b>	<b>\$ (73,644,199)</b>

1. The Fund invests in certain affiliated mutual funds that expect to be treated as partnerships for tax purposes. See Note 4 of the accompanying Consolidated Notes.

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2018	Year Ended December 31, 2017 <sup>1</sup>
<b>Operations</b>		
Net investment income	\$ 77,241,242	\$ 71,440,901
Net realized gain (loss)	(30,542,149)	6,249,553
Net change in unrealized appreciation/(depreciation)	(120,343,292)	22,696,681
Net increase (decrease) in net assets resulting from operations	(73,644,199)	100,387,135
<b>Dividends and/or Distributions to Shareholders</b>		
Dividends and distributions declared:		
Non-Service shares	(18,866,160)	(9,178,475)
Service shares	(54,450,673)	(25,692,448)
Total dividends and distributions declared	(73,316,833)	(34,870,923)
<b>Beneficial Interest Transactions</b>		
Net decrease in net assets resulting from beneficial interest transactions:		
Non-Service shares	(10,549,208)	(23,313,057)
Service shares	(84,976,296)	(56,507,178)
Total beneficial interest transactions	(95,525,504)	(79,820,235)
<b>Net Assets</b>		
Total decrease	(242,486,536)	(14,304,023)
Beginning of period	1,671,026,068	1,685,330,091
End of period	<b>\$ 1,428,539,532</b>	<b>\$ 1,671,026,068</b>

1. Prior period amounts have been conformed to current year presentation. See Notes to Consolidated Financial Statements, Note 2— New Accounting Pronouncements for further details.

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED FINANCIAL HIGHLIGHTS

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
<b>Non-Service Shares</b>					
<b>Per Share Operating Data</b>					
Net asset value, beginning of period	\$5.13	\$4.94	\$4.88	\$5.30	\$5.38
Income (loss) from investment operations:					
Net investment income <sup>1</sup>	0.25	0.22	0.20	0.23	0.26
Net realized and unrealized gain (loss)	(0.47)	0.09	0.11	(0.34)	(0.11)
Total from investment operations	(0.22)	0.31	0.31	(0.11)	0.15
Dividends and/or distributions to shareholders:					
Dividends from net investment income	(0.25)	(0.12)	(0.25)	(0.31)	(0.23)
Net asset value, end of period	<b>\$4.66</b>	<b>\$5.13</b>	<b>\$4.94</b>	<b>\$4.88</b>	<b>\$5.30</b>
<b>Total Return, at Net Asset Value<sup>2</sup></b>	(4.40)%	6.27%	6.53%	(2.26)%	2.84%
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$346,707	\$393,337	\$401,308	\$429,710	\$586,951
Average net assets (in thousands)	\$385,157	\$400,945	\$416,054	\$510,765	\$707,673
Ratios to average net assets: <sup>3,4</sup>					
Net investment income	5.07%	4.40%	4.00%	4.51%	4.73%
Expenses excluding specific expenses listed below	0.88%	0.82%	0.79%	0.76%	0.74%
Interest and fees from borrowings	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00%
Total expenses <sup>6</sup>	0.88%	0.82%	0.79%	0.76%	0.74%
Expenses after payments, waivers and/or reimbursements and reduction to custodian expenses	0.81%	0.76%	0.74%	0.73%	0.71%
Portfolio turnover rate <sup>7</sup>	68%	74%	80%	79%	93%

1. Per share amounts calculated based on the average shares outstanding during the period.

2. Assumes an initial investment on the business day before the first day of the fiscal period, with all dividends and distributions reinvested in additional shares on the reinvestment date, and redemption at the net asset value calculated on the last business day of the fiscal period. Total returns are not annualized for periods less than one full year. Total return information does not reflect expenses that apply at the separate account level or to related insurance products. Inclusion of these charges would reduce the total return figures for all periods shown. Returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

3. Annualized for periods less than one full year.

4. Includes the Fund's share of the allocated expenses and/or net investment income from the master funds.

5. Less than 0.005%.

6. Total expenses including indirect expenses from affiliated fund fees and expenses were as follows:

Year Ended December 31, 2018	0.90%
Year Ended December 31, 2017	0.83%
Year Ended December 31, 2016	0.80%
Year Ended December 31, 2015	0.77%
Year Ended December 31, 2014	0.75%

7. The portfolio turnover rate excludes purchase and sale transactions of To Be Announced (TBA) mortgage-related securities as follows:

	Purchase Transactions	Sale Transactions
Year Ended December 31, 2018	\$2,370,164,194	\$2,399,236,376
Year Ended December 31, 2017	\$2,271,944,419	\$2,153,905,799
Year Ended December 31, 2016	\$1,798,210,272	\$1,766,445,159
Year Ended December 31, 2015	\$1,225,140,927	\$1,266,426,777
Year Ended December 31, 2014	\$1,348,552,640	\$1,337,346,996

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED FINANCIAL HIGHLIGHTS Continued

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
<b>Service Shares</b>					
<b>Per Share Operating Data</b>					
Net asset value, beginning of period	\$5.27	\$5.07	\$5.00	\$5.42	\$5.50
Income (loss) from investment operations:					
Net investment income <sup>1</sup>	0.24	0.22	0.19	0.23	0.25
Net realized and unrealized gain (loss)	(0.48)	0.08	0.12	(0.35)	(0.11)
Total from investment operations	(0.24)	0.30	0.31	(0.12)	0.14
Dividends and/or distributions to shareholders:					
Dividends from net investment income	(0.23)	(0.10)	(0.24)	(0.30)	(0.22)
Net asset value, end of period	<b>\$4.80</b>	<b>\$5.27</b>	<b>\$5.07</b>	<b>\$5.00</b>	<b>\$5.42</b>
<b>Total Return, at Net Asset Value<sup>2</sup></b>	(4.54)%	6.04%	6.27%	(2.49)%	2.49%
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$1,081,833	\$1,277,689	\$1,284,022	\$1,375,143	\$1,551,247
Average net assets (in thousands)	\$1,196,988	\$1,295,999	\$1,332,343	\$1,496,350	\$1,646,615
Ratios to average net assets: <sup>3,4</sup>					
Net investment income	4.82%	4.15%	3.75%	4.26%	4.48%
Expenses excluding specific expenses listed below	1.13%	1.07%	1.04%	1.01%	0.99%
Interest and fees from borrowings	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00% <sup>5</sup>	0.00%
Total expenses <sup>6</sup>	1.13%	1.07%	1.04%	1.01%	0.99%
Expenses after payments, waivers and/or reimbursements and reduction to custodian expenses	1.06%	1.01%	0.99%	0.98%	0.96%
Portfolio turnover rate <sup>7</sup>	68%	74%	80%	79%	93%

1. Per share amounts calculated based on the average shares outstanding during the period.

2. Assumes an initial investment on the business day before the first day of the fiscal period, with all dividends and distributions reinvested in additional shares on the reinvestment date, and redemption at the net asset value calculated on the last business day of the fiscal period. Total returns are not annualized for periods less than one full year. Total return information does not reflect expenses that apply at the separate account level or to related insurance products. Inclusion of these charges would reduce the total return figures for all periods shown. Returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

3. Annualized for periods less than one full year.

4. Includes the Fund's share of the allocated expenses and/or net investment income from the master funds.

5. Less than 0.005%.

6. Total expenses including indirect expenses from affiliated fund fees and expenses were as follows:

Year Ended December 31, 2018	1.15%
Year Ended December 31, 2017	1.08%
Year Ended December 31, 2016	1.05%
Year Ended December 31, 2015	1.02%
Year Ended December 31, 2014	1.00%

7. The portfolio turnover rate excludes purchase and sale transactions of To Be Announced (TBA) mortgage-related securities as follows:

	Purchase Transactions	Sale Transactions
Year Ended December 31, 2018	\$2,370,164,194	\$2,399,236,376
Year Ended December 31, 2017	\$2,271,944,419	\$2,153,905,799
Year Ended December 31, 2016	\$1,798,210,272	\$1,766,445,159
Year Ended December 31, 2015	\$1,225,140,927	\$1,266,426,777
Year Ended December 31, 2014	\$1,348,552,640	\$1,337,346,996

See accompanying Notes to Consolidated Financial Statements.

**1. Organization**

Oppenheimer Global Strategic Income Fund/VA (the "Fund"), a separate series of Oppenheimer Variable Account Funds, is a diversified open-end management investment company registered under the Investment Company Act of 1940 ("1940 Act"), as amended. The Fund's main investment objective is to seek total return. The Fund's investment adviser is OFI Global Asset Management, Inc. ("OFI Global" or the "Manager"), a wholly-owned subsidiary of OppenheimerFunds, Inc. ("OFI" or the "Sub-Adviser"). The Manager has entered into a sub-advisory agreement with OFI.

Shares of the Fund are sold only to separate accounts of life insurance companies.

The Fund offers two classes of shares. Both classes are sold at their offering price, which is the net asset value per share, to separate investment accounts of participating insurance companies as an underlying investment for variable life insurance policies, variable annuity contracts or other investment products. The class of shares designated as Service shares is subject to a distribution and service plan. Both classes of shares have identical rights and voting privileges with respect to the Fund in general and exclusive voting rights on matters that affect that class alone. Earnings, net assets and net asset value per share may differ due to each class having its own expenses, such as transfer and shareholder servicing agent fees and shareholder communications, directly attributable to that class.

The following is a summary of significant accounting policies followed in the Fund's preparation of financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

**2. Significant Accounting Policies**

**Security Valuation.** All investments in securities are recorded at their estimated fair value, as described in Note 3.

**Basis for Consolidation.** The Fund has established a Cayman Islands exempted company, Oppenheimer Global Strategic Income Fund/VA (Cayman) Ltd. (the "Subsidiary"), which is wholly-owned and controlled by the Fund. The Fund and Subsidiary are both managed by the Manager. The Fund may invest up to 25% of its total assets in the Subsidiary. The Subsidiary invests primarily in Regulation S securities. The Fund applies its investment restrictions and compliance policies and procedures, on a look-through basis, to the Subsidiary.

The financial statements have been consolidated and include accounts of the Fund and the Subsidiary. Accordingly, all inter-company transactions and balances have been eliminated. At period end, the Fund owned 88,909 shares with net assets of \$7,163,082 in the Subsidiary.

Other financial information at period end:

Total market value of investments	\$	4,072,081
Net assets	\$	7,163,082
Net income (loss)	\$	36,663
Net realized gain (loss)	\$	(306,519)
Net change in unrealized appreciation/depreciation	\$	(409,095)

**Foreign Currency Translation.** The books and records of the Fund are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

- (1) Value of investment securities, other assets and liabilities — at the exchange rates prevailing at market close as described in Note 3.
- (2) Purchases and sales of investment securities, income and expenses — at the rates of exchange prevailing on the respective dates of such transactions.

Although the net assets and the values are presented at the foreign exchange rates at market close, the Fund does not isolate the portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses from investments shown in the Consolidated Statement of Operations.

For securities, which are subject to foreign withholding tax upon disposition, realized and unrealized gains or losses on such securities are recorded net of foreign withholding tax.

Reported net 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, the difference between the amounts of dividends, interest, and foreign withholding tax reclaims recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities, resulting from changes in the exchange rate.

**Allocation of Income, Expenses, Gains and Losses.** Income, expenses (other than those attributable to a specific class), gains and losses are allocated on a daily basis to each class of shares based upon the relative proportion of net assets represented by such class. Operating expenses directly attributable to a specific class are charged against the operations of that class.

**Dividends and Distributions to Shareholders.** Dividends and distributions to shareholders, which are determined in accordance with income tax regulations and may differ from U.S. GAAP, are recorded on the ex-dividend date. Income and capital gain distributions, if any, are declared and paid annually or at other times as determined necessary by the Manager.

**Investment Income.** Dividend income is recorded on the ex-dividend date or upon ex-dividend notification in the case of certain foreign dividends where the ex-dividend date may have passed. Non-cash dividends included in dividend income, if any, are recorded at the fair value of the securities received. Withholding taxes on foreign dividends, if any, and capital gains taxes on foreign investments, if any, have been provided for in accordance with



## 2. Significant Accounting Policies (Continued)

the Fund's understanding of the applicable tax rules and regulations. Interest income, if any, is recognized on an accrual basis. Discount and premium, which are included in interest income on the Consolidated Statement of Operations, are amortized or accreted daily.

**Custodian Fees.** "Custodian fees and expenses" in the Consolidated Statement of Operations may include interest expense incurred by the Fund on any cash overdrafts of its custodian account during the period. Such cash overdrafts may result from the effects of failed trades in portfolio securities and from cash outflows resulting from unanticipated shareholder redemption activity. The Fund pays interest to its custodian on such cash overdrafts, to the extent they are not offset by positive cash balances maintained by the Fund, at a rate equal to the Federal Funds Rate plus 2.00%. The "Reduction to custodian expenses" line item, if applicable, represents earnings on cash balances maintained by the Fund during the period. Such interest expense and other custodian fees may be paid with these earnings.

**Security Transactions.** Security transactions are recorded on the trade date. Realized gains and losses on securities sold are determined on the basis of identified cost.

**Indemnifications.** The Fund's organizational documents provide current and former Trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Fund. In the normal course of business, the Fund may also enter into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

**Federal Taxes.** The Fund intends to comply with provisions of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its investment company taxable income, including any net realized gain on investments not offset by capital loss carryforwards, if any, to shareholders. Therefore, no federal income or excise tax provision is required. The Fund files income tax returns in U.S. federal and applicable state jurisdictions. The statute of limitations on the Fund's tax return filings generally remains open for the three preceding fiscal reporting period ends. The Fund has analyzed its tax positions for the fiscal year ended December 31, 2018, including open tax years, and does not believe there are any uncertain tax positions requiring recognition in the Fund's financial statements.

Subchapter M requires, among other things, that at least 90% of the Fund's gross income be derived from securities or derived with respect to its business of investing in securities (typically referred to as "qualifying income"). Income from commodity-linked derivatives may not be treated as "qualifying income" for purposes of the 90% gross income requirement. The Internal Revenue Service (IRS) has previously issued a number of private letter rulings which conclude that income derived from commodity index-linked notes and investments in a wholly-owned subsidiary will be "qualifying income." As a result, the Fund will gain exposure to commodities through commodity-linked notes and its wholly-owned subsidiary.

The IRS has suspended the granting of private letter rulings pending further review. As a result, there can be no assurance that the IRS will not change its position with respect to commodity-linked notes and wholly-owned subsidiaries. In addition, future legislation and guidance from the Treasury and the IRS may adversely affect the Fund's ability to gain exposure to commodities through commodity-linked notes and its wholly-owned subsidiary.

The Fund is required to include in income for federal income tax purposes all of the subsidiary's net income and gains whether or not such income is distributed by the subsidiary. Net income and gains from the subsidiary are generally treated as ordinary income by the Fund, regardless of the character of the subsidiary's underlying income. Net losses from the subsidiary do not pass through to the Fund for federal income tax purposes.

The tax components of capital shown in the following table represent distribution requirements the Fund must satisfy under the income tax regulations, losses the Fund may be able to offset against income and gains realized in future years and unrealized appreciation or depreciation of securities and other investments for federal income tax purposes.

Undistributed Net Investment Income	Undistributed Long-Term Gain	Accumulated Loss Carryforward <sup>1,2,3,4</sup>	Net Unrealized Depreciation Based on cost of Securities and Other Investments for Federal Income Tax Purposes
\$51,756,881	\$—	\$174,013,686	\$96,120,115

1. At period end, the Fund had \$173,076,585 of net capital loss carryforward available to offset future realized capital gains, if any, and thereby reduce future taxable gain distributions.

2. The Fund has \$937,101 of straddle losses which were deferred.

3. During the reporting period, the Fund did not utilize any capital loss carryforward.

4. During the previous reporting period, the Fund utilized \$3,016,001 of capital loss carryforward to offset capital gains realized in that fiscal year.

Net investment income (loss) and net realized gain (loss) may differ for financial statement and tax purposes. The character of dividends and distributions made during the fiscal year from net investment income or net realized gains are determined in accordance with federal income tax requirements, which may differ from the character of net investment income or net realized gains presented in those financial statements in accordance with U.S. GAAP. Also, due to timing of dividends and distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which the income or net realized gain was recorded by the Fund.

Accordingly, the following amounts have been reclassified for the reporting period. Net assets of the Fund were unaffected by the reclassifications.

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## 2. Significant Accounting Policies (Continued)

Increase to Paid-in Capital	Increase to Accumulated Net Loss
\$132	\$132

The tax character of distributions paid during the reporting periods:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Distributions paid from:		
Ordinary income	\$ 73,316,833	\$ 34,870,923

The aggregate cost of securities and other investments and the composition of unrealized appreciation and depreciation of securities and other investments for federal income tax purposes at period end are noted in the following table. The primary difference between book and tax appreciation or depreciation of securities and other investments, if applicable, is attributable to the tax deferral of losses or tax realization of financial statement unrealized gain or loss.

Federal tax cost of securities	\$ 1,674,141,574
Federal tax cost of other investments	(181,945,254)
Total federal tax cost	<u>\$ 1,492,196,320</u>
Gross unrealized appreciation	\$ 59,297,790
Gross unrealized depreciation	(155,417,905)
Net unrealized depreciation	<u>\$ (96,120,115)</u>

**Use of Estimates.** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

**New Accounting Pronouncements.** In March 2017, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), ASU 2017-08. This provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Manager has evaluated the impacts of these changes on the financial statements and there are no material impacts.

During August 2018, the Securities and Exchange Commission (the "SEC") issued Final Rule Release No. 33-10532 (the "Rule"), Disclosure Update and Simplification. The rule amends certain financial statement disclosure requirements to conform to U.S. GAAP. The amendments to Rule 6-04.17 of Regulation S-X (balance sheet) remove the requirement to separately state the book basis components of net assets: undistributed (over-distribution of) net investment income ("UNII"), accumulated undistributed net realized gains (losses), and net unrealized appreciation (depreciation) at the balance sheet date. Instead, consistent with U.S. GAAP, funds will be required to disclose total distributable earnings. The amendments to Rule 6-09 of Regulation S-X (statement of changes in net assets) remove the requirement to separately state the sources of distributions paid. Instead, consistent with U.S. GAAP, funds will be required to disclose the total amount of distributions paid, except that any tax return of capital must be separately disclosed. The amendments also remove the requirement to parenthetically state the book basis amount of UNII on the statement of changes in net assets. The requirements of the Rule are effective November 5, 2018, and the Funds' Consolidated Statement of Assets and Liabilities and Consolidated Statement of Changes in Net Assets for the current reporting period have been modified accordingly. In addition, certain amounts within each Fund's Consolidated Statement of Changes in Net Assets for the prior fiscal period have been modified to conform to the Rule.

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## 3. Securities Valuation

The Fund calculates the net asset value of its shares as of 4:00 P.M. Eastern Time, on each day the New York Stock Exchange (the "Exchange" or "NYSE") is open for trading, except in the case of a scheduled early closing of the Exchange, in which case the Fund will calculate net asset value of the shares as of the scheduled early closing time of the Exchange.

The Fund's Board has adopted procedures for the valuation of the Fund's securities and has delegated the day-to-day responsibility for valuation determinations under those procedures to the Manager. The Manager has established a Valuation Committee which is responsible for determining a fair valuation for any security for which market quotations are not readily available. The Valuation Committee's fair valuation determinations are subject to review, approval and ratification by the Fund's Board at least quarterly or more frequently, if necessary.

### Valuation Methods and Inputs

Securities are valued primarily using unadjusted quoted market prices, when available, as supplied by third party pricing services or broker-dealers.

The following methodologies are used to determine the market value or the fair value of the types of securities described below:

Equity securities traded on a securities exchange (including exchange-traded derivatives other than futures and futures options) are valued based on the official closing price on the principal exchange on which the security is traded, as identified by the Manager, prior to the time when the Fund's assets

**3. Securities Valuation (Continued)**

are valued. If the official closing price is unavailable, the security is valued at the last sale price on the principal exchange on which it is traded, or if no sales occurred, the security is valued at the mean between the quoted bid and asked prices. Over-the-counter equity securities are valued at the last published sale price, or if no sales occurred, at the mean between the quoted bid and asked prices. Events occurring after the close of trading on foreign exchanges may result in adjustments to the valuation of foreign securities to more accurately reflect their fair value as of the time when the Fund's assets are valued.

Shares of a registered investment company that are not traded on an exchange are valued at that investment company's net asset value per share.

Corporate and government debt securities (of U.S. or foreign issuers) and municipal debt securities, short-term notes, mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities are valued at the mean between the bid and asked prices utilizing evaluated prices obtained from third party pricing services or broker-dealers who may use matrix pricing methods to determine the evaluated prices. Pricing services generally price debt securities assuming orderly transactions of an institutional "round lot" size, but some trades may occur in smaller, "odd lot" sizes, sometimes at lower prices than institutional round lot trades. Standard inputs generally considered by third-party pricing vendors include reported trade data, broker-dealer price quotations, benchmark yields, issuer spreads on comparable securities, the credit quality, yield, maturity, as well as other appropriate factors.

Loans are valued at the mean between the bid and asked prices utilizing evaluated prices obtained from third party pricing services or broker-dealers. Standard inputs generally considered by third-party pricing vendors include information obtained from market participants regarding broker-dealer price quotations.

Structured securities, swaps, swaptions, and other over-the-counter derivatives are valued utilizing evaluated prices obtained from third party pricing services or broker-dealers. Standard inputs generally considered by third-party pricing vendors include market information relevant to the underlying reference asset such as the price of financial instruments, stock market indices, foreign currencies, interest rate spreads, commodities, credit spreads, credit event probabilities, index values, individual security values, forward interest rates, variable interest rates, volatility measures, and forward currency rates, or the occurrence of other specific events.

Forward foreign currency exchange contracts are valued utilizing current and forward currency rates obtained from third party pricing services. When the settlement date of a contract is an interim date for which a quotation is not available, interpolated values are derived using the nearest dated forward currency rate.

Futures contracts and futures options traded on a commodities or futures exchange will be valued at the final settlement price or official closing price on the principal exchange as reported by such principal exchange at its trading session ending at, or most recently prior to, the time when the Fund's assets are valued.

Securities for which market quotations are not readily available, or when a significant event has occurred that would materially affect the value of the security, are fair valued either (i) by a standardized fair valuation methodology applicable to the security type or the significant event as previously approved by the Valuation Committee and the Fund's Board or (ii) as determined in good faith by the Manager's Valuation Committee. The Valuation Committee considers all relevant facts that are reasonably available, through either public information or information available to the Manager, when determining the fair value of a security. Those standardized fair valuation methodologies include, but are not limited to, valuing securities at the last sale price or initially at cost and subsequently adjusting the value based on: changes in company specific fundamentals, changes in an appropriate securities index, or changes in the value of similar securities which may be further adjusted for any discounts related to security-specific resale restrictions. When possible, such methodologies use observable market inputs such as unadjusted quoted prices of similar securities, observable interest rates, currency rates and yield curves. The methodologies used for valuing securities are not necessarily an indication of the risks associated with investing in those securities nor can it be assured that the Fund can obtain the fair value assigned to a security if it were to sell the security.

To assess the continuing appropriateness of security valuations, the Manager regularly compares prior day prices and sale prices to the current day prices and challenges those prices exceeding certain tolerance levels with the third party pricing service or broker source. For those securities valued by fair valuations, whether through a standardized fair valuation methodology or a fair valuation determination, the Valuation Committee reviews and affirms the reasonableness of the valuations based on such methodologies and fair valuation determinations on a regular basis after considering all relevant information that is reasonably available.

Classifications

Each investment asset or liability of the Fund is assigned a level at measurement date based on the significance and source of the inputs to its valuation. Various data inputs may be used in determining the value of each of the Fund's investments as of the reporting period end. These data inputs are categorized in the following hierarchy under applicable financial accounting standards:

- 1) Level 1-unadjusted quoted prices in active markets for identical assets or liabilities (including securities actively traded on a securities exchange)
- 2) Level 2-inputs other than unadjusted quoted prices that are observable for the asset or liability (such as unadjusted quoted prices for similar assets and market corroborated inputs such as interest rates, prepayment speeds, credit risks, etc.)
- 3) Level 3-significant unobservable inputs (including the Manager's own judgments about assumptions that market participants would use in pricing the asset or liability).

The inputs used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

The Fund classifies each of its investments in investment companies which are publicly offered as Level 1. Investment companies that are not publicly offered, if any, are classified as Level 2 in the fair value hierarchy.

### 3. Securities Valuation (Continued)

The table below categorizes amounts that are included in the Fund's Consolidated Statement of Assets and Liabilities at period end based on valuation input level:

	Level 1— Unadjusted Quoted Prices	Level 2— Other Significant Observable Inputs	Level 3— Significant Unobservable Inputs	Value
<b>Assets Table</b>				
<b>Investments, at Value:</b>				
Asset-Backed Securities	\$ —	\$ 33,051,502	\$ —	\$ 33,051,502
Mortgage-Backed Obligations	—	299,079,357	—	299,079,357
Foreign Government Obligations	—	288,046,695	—	288,046,695
Corporate Loans	—	5,758,325	—	5,758,325
Corporate Bonds and Notes	—	590,739,847	26,602	590,766,449
Preferred Stocks	18,300,698	—	—	18,300,698
Common Stocks	2,127,421	—	38,084	2,165,505
Rights, Warrants and Certificates	—	—	87,664	87,664
Structured Securities	—	7,163,861	74,171	7,238,032
Short-Term Notes	—	19,060,220	—	19,060,220
Investment Companies	130,682,591	174,767,262	—	305,449,853
Over-the-Counter Options Purchased	—	6,580,809	—	6,580,809
Over-the-Counter Interest Rate Swaptions Purchased	—	5,554,772	—	5,554,772
Total Investments, at Value	151,110,710	1,429,802,650	226,521	1,581,139,881
<b>Other Financial Instruments:</b>				
Swaps, at value	—	484,080	—	484,080
Centrally cleared swaps, at value	—	6,083,709	—	6,083,709
Futures contracts	1,356,330	—	—	1,356,330
Forward currency exchange contracts	—	7,416,073	—	7,416,073
Total Assets	\$ 152,467,040	\$ 1,443,786,512	\$ 226,521	\$ 1,596,480,073
<b>Liabilities Table</b>				
<b>Other Financial Instruments:</b>				
Swaps, at value	\$ —	\$ (3,020,734)	\$ —	\$ (3,020,734)
Centrally cleared swaps, at value	—	(2,173,976)	—	(2,173,976)
Options written, at value	—	(11,315,501)	—	(11,315,501)
Futures contracts	(2,543,981)	—	—	(2,543,981)
Forward currency exchange contracts	—	(12,515,690)	—	(12,515,690)
Swaptions written, at value	—	(16,191,918)	—	(16,191,918)
Total Liabilities	\$ (2,543,981)	\$ (45,217,819)	\$ —	\$ (47,761,800)

Forward currency exchange contracts and futures contracts, if any, are reported at their unrealized appreciation/depreciation at measurement date, which represents the change in the contract's value from trade date. All additional assets and liabilities included in the above table are reported at their market value at measurement date.

The table below shows the transfers between Level 2 and Level 3. The Fund's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

	Transfers into Level 2*		Transfers out of Level 2**		Transfers into Level 3**		Transfers out of Level 3*	
<b>Assets Table</b>								
<b>Investments, at Value:</b>								
Mortgage-Backed Obligations	\$	51,559	\$	—	\$	—	\$	(51,559)
Common Stocks		—		(39,045)		39,045		—
Rights, Warrants and Certificates		—		(21,067)		21,067		—
Total Assets	\$	51,559	\$	(60,112)	\$	60,112	\$	(51,559)

\*Transferred from Level 3 to Level 2 due to the availability of market data for this security.

\*\*Transferred from Level 2 to Level 3 because of the lack of observable market data due to a decrease in market activity for these securities.

### 4. Investments and Risks

**Risks of Foreign Investing.** The Fund may invest in foreign securities which are subject to special risks. Securities traded in foreign markets may be less liquid and more volatile than those traded in U.S. markets. Foreign issuers are usually not subject to the same accounting and disclosure requirements that U.S. companies are subject to, which may make it difficult for the Fund to evaluate a foreign company's operations or financial condition. A change in the value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of investments denominated in that foreign currency and in the value of any income or distributions the Fund may receive on those investments. The value of foreign investments may be affected by exchange control regulations, foreign taxes, higher transaction and other costs, delays in the settlement of transactions, changes in economic or monetary policy in the United States or abroad, expropriation or nationalization of a company's assets, or other political and economic

**4. Investments and Risks (Continued)**

factors. In addition, due to the inter-relationship of global economies and financial markets, changes in political and economic factors in one country or region could adversely affect conditions in another country or region. Investments in foreign securities may also expose the Fund to time-zone arbitrage risk. Foreign securities may trade on weekends or other days when the Fund does not price its shares. At times, the Fund may emphasize investments in a particular country or region and may be subject to greater risks from adverse events that occur in that country or region. Foreign securities and foreign currencies held in foreign banks and securities depositories may be subject to limited or no regulatory oversight.

**Investments in Affiliated Funds.** The Fund is permitted to invest in other mutual funds advised by the Manager ("Affiliated Funds"). Affiliated Funds are management investment companies registered under the 1940 Act, as amended. The Manager is the investment adviser of, and the Sub-Adviser provides investment and related advisory services to, the Affiliated Funds. When applicable, the Fund's investments in Affiliated Funds are included in the Consolidated Statement of Investments. Shares of Affiliated Funds are valued at their net asset value per share. As a shareholder, the Fund is subject to its proportional share of the Affiliated Funds' expenses, including their management fee. The Manager will waive fees and/or reimburse Fund expenses in an amount equal to the indirect management fees incurred through the Fund's investment in the Affiliated Funds.

Each of the Affiliated Funds in which the Fund invests has its own investment risks, and those risks can affect the value of the Fund's investments and therefore the value of the Fund's shares. To the extent that the Fund invests more of its assets in one Affiliated Fund than in another, the Fund will have greater exposure to the risks of that Affiliated Fund.

**Investments in Money Market Instruments.** The Fund is permitted to invest its free cash balances in money market instruments to provide liquidity or for defensive purposes. The Fund may invest in money market instruments by investing in Class E shares of Oppenheimer Institutional Government Money Market Fund ("IGMMF"), which is an Affiliated Fund. IGMMF is regulated as a money market fund under the 1940 Act, as amended. The Fund may also invest in money market instruments directly or in other affiliated or unaffiliated money market funds.

**Investment in Oppenheimer Master Funds.** The Fund is permitted to invest in entities sponsored and/or advised by the Manager or an affiliate. Certain of these entities in which the Fund invests are mutual funds registered under the 1940 Act, as amended, that expect to be treated as partnerships for tax purposes, specifically Oppenheimer Master Loan Fund, LLC ("Master Loan") and Oppenheimer Master Event-Linked Bond Fund, LLC ("Master Event-Linked Bond") (the "Master Funds"). Each Master Fund has its own investment risks, and those risks can affect the value of the Fund's investments and therefore the value of the Fund's shares. To the extent that the Fund invests more of its assets in one Master Fund than in another, the Fund will have greater exposure to the risks of that Master Fund.

The investment objective of Master Loan is to seek income. The investment objective of Master Event-Linked Bond is to seek total return. The Fund's investments in the Master Funds are included in the Consolidated Statement of Investments. The Fund recognizes income and gain/(loss) on its investments in each Master Fund according to its allocated pro-rata share, based on its relative proportion of total outstanding Master Fund shares held, of the total net income earned and the net gain/(loss) realized on investments sold by the Master Funds. As a shareholder, the Fund is subject to its proportional share of the Master Funds' expenses, including their management fee. The Manager will waive fees and/or reimburse Fund expenses in an amount equal to the indirect management fees incurred through the Fund's investment in the Master Funds. The Fund owns 13.4% of Master Loan and 8.4% of Master Event-Linked Bond at period end.

**Structured Securities.** The Fund invests in structured securities whose market values, interest rates and/or redemption prices are linked to the performance of underlying foreign currencies, interest rate spreads, stock market indices, prices of individual securities, commodities or other financial instruments or the occurrence of other specific events. The structured securities are often leveraged, increasing the volatility of each note's market value relative to the change in the underlying linked financial element or event. Fluctuations in value of these securities are recorded as unrealized gains and losses in the accompanying Consolidated Statement of Operations. The Fund records a realized gain or loss when a structured security is sold or matures.

**Loans.** The Fund invests in loans made to U.S. and foreign borrowers that are corporations, partnerships or other business entities. The Fund will do so directly as an original lender or by assignment or indirectly through participation agreements or certain derivative instruments. While many of these loans will be collateralized, the Fund can also invest in uncollateralized loans. Loans are often issued in connection with recapitalizations, acquisitions, leveraged buyouts, and refinancing of borrowers. The loans often pay interest at rates that float above (or are adjusted periodically based on) a benchmark that reflects current interest rates although the Fund can also invest in loans with fixed interest rates.

When investing in loans, the Fund generally will have a contractual relationship only with the lender, not with the relevant borrower. As a result, the Fund generally will have the right to receive payments of principal, interest, and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the relevant borrower. The Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will assume the credit risk of both the borrower and the institution selling the participation to the Fund.

**Securities on a When-Issued or Delayed Delivery Basis.** The Fund may purchase securities on a "when-issued" basis, and may purchase or sell securities on a "delayed delivery" basis. "When-issued" or "delayed delivery" refers to securities whose terms and indenture are available and for which a market exists, but which are not available for immediate delivery. Delivery and payment for securities that have been purchased by the Fund on a when-issued basis normally takes place within six months and possibly as long as two years or more after the trade date. During this period, such securities do not earn interest, are subject to market fluctuation and may increase or decrease in value prior to their delivery. The purchase of securities

#### 4. Investments and Risks (Continued)

on a when-issued basis may increase the volatility of the Fund's net asset value to the extent the Fund executes such transactions while remaining substantially fully invested. When the Fund engages in when-issued or delayed delivery transactions, it relies on the buyer or seller, as the case may be, to complete the transaction. Their failure to do so may cause the Fund to lose the opportunity to obtain or dispose of the security at a price and yield it considers advantageous. The Fund may also sell securities that it purchased on a when-issued basis or forward commitment prior to settlement of the original purchase.

At period end, the Fund had purchased securities issued on a when-issued or delayed delivery basis and sold securities issued on a delayed delivery basis as follows:

	When-Issued or Delayed Delivery Basis Transactions
Purchased securities	\$205,787,303
Sold securities	30,128,739

The Fund may enter into "forward roll" transactions with respect to mortgage-related securities. In this type of transaction, the Fund sells a mortgage-related security to a buyer and simultaneously agrees to repurchase a similar security (same type, coupon and maturity) at a later date at a set price. During the period between the sale and the repurchase, the Fund will not be entitled to receive interest and principal payments on the securities that have been sold. The Fund records the incremental difference between the forward purchase and sale of each forward roll as realized gain (loss) on investments or as fee income in the case of such transactions that have an associated fee in lieu of a difference in the forward purchase and sale price.

Forward roll transactions may be deemed to entail embedded leverage since the Fund purchases mortgage-related securities with extended settlement dates rather than paying for the securities under a normal settlement cycle. This embedded leverage increases the Fund's market value of investments relative to its net assets which can incrementally increase the volatility of the Fund's performance. Forward roll transactions can be replicated over multiple settlement periods.

Risks of entering into forward roll transactions include the potential inability of the counterparty to meet the terms of the agreement; the potential of the Fund to receive inferior securities at redelivery as compared to the securities sold to the counterparty; and counterparty credit risk.

At period end, the counterparty pledged \$572,549 of collateral to the Fund for forward roll transactions.

At period end, the Fund pledged \$93,000 of collateral to the counterparty for forward roll transactions.

**Restricted Securities.** At period end, investments in securities included issues that are restricted. A restricted security may have a contractual restriction on its resale and is valued under methods approved by the Board of Trustees as reflecting fair value. Securities that are restricted are marked with an applicable footnote on the Consolidated Statement of Investments. Restricted securities are reported on a schedule following the Consolidated Statement of Investments.

**Equity Security Risk.** Stocks and other equity securities fluctuate in price. The value of the Fund's portfolio may be affected by changes in the equity markets generally. Equity markets may experience significant short-term volatility and may fall sharply at times. Different markets may behave differently from each other and U.S. equity markets may move in the opposite direction from one or more foreign stock markets. Adverse events in any part of the equity or fixed-income markets may have unexpected negative effects on other market segments.

The prices of individual equity securities generally do not all move in the same direction at the same time and a variety of factors can affect the price of a particular company's securities. These factors may include, but are not limited to, poor earnings reports, a loss of customers, litigation against the company, general unfavorable performance of the company's sector or industry, or changes in government regulations affecting the company or its industry.

**Credit Risk.** The Fund invests in high-yield, non-investment-grade bonds, which may be subject to a greater degree of credit risk. Credit risk relates to the ability of the issuer to meet interest or principal payments or both as they become due. The Fund may acquire securities that have missed an interest payment, and is not obligated to dispose of securities whose issuers or underlying obligors subsequently miss an interest and/or principal payment.

Information concerning securities not accruing interest at period end is as follows:

Cost	\$2,966,073
Market Value	\$796,716
Market Value as % of Net Assets	0.06%

**Sovereign Debt Risk.** The Fund invests in sovereign debt securities, which are subject to certain special risks. These risks include, but are not limited to, the risk that a governmental entity may delay or refuse, or otherwise be unable, to pay interest or repay the principal on its sovereign debt. There may also be no legal process for collecting sovereign debt that a government does not pay or bankruptcy proceedings through which all or part of such sovereign debt may be collected. In addition, a restructuring or default of sovereign debt may also cause additional impacts to the financial markets, such as downgrades to credit ratings, reduced liquidity and increased volatility, among others.

**Shareholder Concentration.** At period end, three shareholders each owned 20% or more of the Fund's total outstanding shares.

A shareholder is a related party of the Fund. Related parties may include, but are not limited to, the investment manager and its affiliates, affiliated

#### 4. Investments and Risks (Continued)

broker dealers, fund of funds, and directors or employees. The related party owned 22% of the Fund's total outstanding shares at period end.

#### 5. Market Risk Factors

The Fund's investments in securities and/or financial derivatives may expose the Fund to various market risk factors:

**Commodity Risk.** Commodity risk relates to the change in value of commodities or commodity indexes as they relate to increases or decreases in the commodities market. Commodities are physical assets that have tangible properties. Examples of these types of assets are crude oil, heating oil, metals, livestock, and agricultural products.

**Credit Risk.** Credit risk relates to the ability of the issuer of debt to meet interest and principal payments, or both, as they come due. In general, lower-grade, higher-yield debt securities are subject to credit risk to a greater extent than lower-yield, higher-quality securities.

**Equity Risk.** Equity risk relates to the change in value of equity securities as they relate to increases or decreases in the general market.

**Foreign Exchange Rate Risk.** Foreign exchange rate risk relates to the change in the U.S. dollar value of a security held that is denominated in a foreign currency. The U.S. dollar value of a foreign currency denominated security will decrease as the dollar appreciates against the currency, while the U.S. dollar value will increase as the dollar depreciates against the currency.

**Interest Rate Risk.** Interest rate risk refers to the fluctuations in value of fixed-income securities resulting from the inverse relationship between price and yield. For example, an increase in general interest rates will tend to reduce the market value of already issued fixed-income investments, and a decline in general interest rates will tend to increase their value. In addition, debt securities with longer maturities, which tend to have higher yields, are subject to potentially greater fluctuations in value from changes in interest rates than obligations with shorter maturities.

**Volatility Risk.** Volatility risk refers to the magnitude of the movement, but not the direction of the movement, in a financial instrument's price over a defined time period. Large increases or decreases in a financial instrument's price over a relative time period typically indicate greater volatility risk, while small increases or decreases in its price typically indicate lower volatility risk.

#### 6. Use of Derivatives

The Fund's investment objective not only permits the Fund to purchase investment securities, it also allows the Fund to enter into various types of derivatives contracts, including, but not limited to, futures contracts, forward currency exchange contracts, credit default swaps, interest rate swaps, total return swaps, variance swaps and purchased and written options. In doing so, the Fund will employ strategies in differing combinations to permit it to increase, decrease, or change the level or types of exposure to market risk factors. These instruments may allow the Fund to pursue its objectives more quickly and efficiently than if it were to make direct purchases or sales of securities capable of effecting a similar response to market factors. Such contracts may be entered into through a bilateral over-the-counter ("OTC") transaction, or through a securities or futures exchange and cleared through a clearinghouse.

Derivatives may have little or no initial cash investment relative to their market value exposure and therefore can produce significant gains or losses in excess of their cost due to changes in the market risk factors and the overall market. This use of embedded leverage allows the Fund to increase its market value exposure relative to its net assets and can substantially increase the volatility of the Fund's performance. In instances where the Fund is using derivatives to decrease, or hedge, exposures to market risk factors for securities held by the Fund, there are also risks that those derivatives may not perform as expected resulting in losses for the combined or hedged positions. Some derivatives have the potential for unlimited loss, regardless of the size of the Fund's initial investment.

Additional associated risks from investing in derivatives also exist and potentially could have significant effects on the valuation of the derivative and the Fund. Typically, the associated risks are not the risks that the Fund is attempting to increase or decrease exposure to, per its investment objectives, but are the additional risks from investing in derivatives. Examples of these associated risks are liquidity risk, which is the risk that the Fund will not be able to sell the derivative in the open market in a timely manner, and counterparty credit risk, which is the risk that the counterparty will not fulfill its obligation to the Fund.

The Fund's actual exposures to these market risk factors and associated risks during the period are discussed in further detail, by derivative type, below.

#### Forward Currency Exchange Contracts

The Fund may enter into forward currency exchange contracts ("forward contracts") for the purchase or sale of a foreign currency at a negotiated rate at a future date. Such contracts are traded in the OTC inter-bank currency dealer market.

Forward contracts are reported on a schedule following the Consolidated Statement of Investments. The unrealized appreciation (depreciation) is reported in the Consolidated Statement of Assets and Liabilities as a receivable (or payable) and in the Consolidated Statement of Operations within the change in unrealized appreciation (depreciation). At contract close, the difference between the original cost of the contract and the value at the close date is recorded as a realized gain (loss) in the Consolidated Statement of Operations.

The Fund may enter into forward foreign currency exchange contracts in order to decrease exposure to foreign exchange rate risk associated with either specific transactions or portfolio instruments or to increase exposure to foreign exchange rate risk.

During the reporting period, the Fund had daily average contract amounts on forward contracts to buy and sell of \$272,409,303 and \$459,354,497, respectively.

Additional associated risk to the Fund includes counterparty credit risk. Counterparty credit risk arises from the possibility that the counterparty to a forward contract will default and fail to perform its obligations to the Fund.

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## 6. Use of Derivatives (Continued)

### Futures Contracts

A futures contract is a commitment to buy or sell a specific amount of a commodity, financial instrument or currency at a negotiated price on a stipulated future date. The Fund may buy and sell futures contracts and may also buy or write put or call options on these futures contracts. Futures contracts and options thereon are generally entered into on a regulated futures exchange and cleared through a clearinghouse associated with the exchange.

Upon entering into a futures contract, the Fund is required to deposit either cash or securities (initial margin) in an amount equal to a certain percentage of the contract value in an account registered in the futures commission merchant's name. Subsequent payments (variation margin) are paid to or from the futures commission merchant each day equal to the daily changes in the contract value. Such payments are recorded as unrealized gains and losses. Should the Fund fail to make requested variation margin payments, the futures commission merchant can gain access to the initial margin or satisfy the Fund's payment obligations.

Futures contracts are reported on a schedule following the Consolidated Statement of Investments. Securities held by a futures commission merchant to cover initial margin requirements on open futures contracts are noted in the Consolidated Statement of Investments. Cash held by a futures commission merchant to cover initial margin requirements on open futures contracts and the receivable and/or payable for the daily mark to market for the variation margin are noted in the Consolidated Statement of Assets and Liabilities. The net change in unrealized appreciation and depreciation is reported in the Consolidated Statement of Operations. Realized gains (losses) are reported in the Consolidated Statement of Operations at the closing or expiration of futures contracts.

The Fund may purchase and/or sell financial futures contracts and options on futures contracts to gain exposure to, or decrease exposure to interest rate risk, equity risk, foreign exchange rate risk, volatility risk, or commodity risk.

During the reporting period, the Fund had an ending monthly average market value of \$104,691,785 and \$210,627,356 on futures contracts purchased and sold, respectively.

Additional associated risks of entering into futures contracts (and related options) include the possibility that there may be an illiquid market where the Fund is unable to liquidate the contract or enter into an offsetting position and, if used for hedging purposes, the risk that the price of the contract will correlate imperfectly with the prices of the Fund's securities.

### Option Activity

The Fund may buy and sell put and call options, or write put and call options. When an option is written, the Fund receives a premium and becomes obligated to sell or purchase the underlying security, currency or other underlying financial instrument at a fixed price, upon exercise of the option.

Options can be traded through an exchange or through a privately negotiated arrangement with a dealer in an OTC transaction. Options traded through an exchange are generally cleared through a clearinghouse (such as The Options Clearing Corporation). The difference between the premium received or paid, and market value of the option, is recorded as unrealized appreciation or depreciation. The net change in unrealized appreciation or depreciation is reported in the Consolidated Statement of Operations. When an option is exercised, the cost of the security purchased or the proceeds of the security sale are adjusted by the amount of premium received or paid. Upon the expiration or closing of the option transaction, a gain or loss is reported in the Consolidated Statement of Operations.

**Foreign Currency Options.** The Fund may purchase or write call and put options on currencies to increase or decrease exposure to foreign exchange rate risk. A purchased call, or written put option becomes more valuable as the price of the underlying financial instrument appreciates relative to the strike price. A purchased put, or written call option becomes more valuable as the price of the underlying financial instrument depreciates relative to the strike price.

**Interest Rate Options.** The Fund may purchase or write call and put options on treasury and/or euro futures to increase or decrease exposure to interest rate risk. A purchased call or written put option becomes more valuable as the price of the underlying financial instrument appreciates relative to the strike price. A purchased put or written call option becomes more valuable as the price of the underlying financial instrument depreciates relative to the strike price.

**Index/Security Options.** The Fund may purchase or write call and put options on individual equity securities and/or equity indexes to increase or decrease exposure to equity risk. A purchased call or written put option becomes more valuable as the price of the underlying financial instrument appreciates relative to the strike price. A purchased put or written call option becomes more valuable as the price of the underlying financial instrument depreciates relative to the strike price.

During the reporting period, the Fund had an ending monthly average market value of \$2,515,484 and \$1,061,162 on purchased call options and purchased put options, respectively.

Options written, if any, are reported in a schedule following the Consolidated Statement of Investments and as a liability in the Consolidated Statement of Assets and Liabilities. Securities held in collateral accounts to cover potential obligations with respect to outstanding written options are noted in the Consolidated Statement of Investments.

The risk in writing a call option is the market price of the underlying security increasing above the strike price and the option being exercised. The Fund must then purchase the underlying security at the higher market price and deliver it for the strike price or, if it owns the underlying security, deliver it at the strike price and forego any benefit from the increase in the price of the underlying security above the strike price. The risk in writing a put option is the market price of the underlying security decreasing below the strike price and the option being exercised. The Fund must then purchase the underlying security at the strike price when the market price of the underlying security is below the strike price. Alternatively, the Fund could also close out a written option position, in which case the risk is that the closing transaction will require a premium to be paid by the Fund that is greater than the premium the Fund received. When writing options, the Fund has the additional risk that there may be an illiquid market where the Fund is unable to close the



## 6. Use of Derivatives (Continued)

contract. The risk in buying an option is that the Fund pays a premium for the option, and the option may be worth less than the premium paid or expire worthless.

During the reporting period, the Fund had an ending monthly average market value of \$1,743,703 and \$9,558,845 on written call options and written put options, respectively.

Additional associated risks to the Fund include counterparty credit risk and liquidity risk.

### Swap Contracts

The Fund may enter into swap contract agreements with a counterparty to exchange a series of cash flows based on either specified reference rates, the price or volatility of asset or non-asset references, or the occurrence of a credit event, over a specified period. Swaps can be executed in a bi-lateral privately negotiated arrangement with a dealer in an OTC transaction ("OTC swaps") or executed on a regulated market. Certain swaps, regardless of the venue of their execution, are required to be cleared through a clearinghouse ("centrally cleared swaps"). Swap contracts may include interest rate, equity, debt, index, total return, credit default, currency, and volatility swaps.

Swap contracts are reported on a schedule following the Consolidated Statement of Investments. The values of centrally cleared swap and OTC swap contracts are aggregated by positive and negative values and disclosed separately on the Consolidated Statement of Assets and Liabilities. The unrealized appreciation (depreciation) related to the change in the valuation of the notional amount of the swap is combined with the accrued interest due to (owed by) the Fund, if any, at termination or settlement. The net change in this amount during the period is included on the Consolidated Statement of Operations. The Fund also records any periodic payments received from (paid to) the counterparty, including at termination, under such contracts as realized gain (loss) on the Consolidated Statement of Operations.

Swap contract agreements are exposed to the market risk factor of the specific underlying reference rate or asset. Swap contracts are typically more attractively priced compared to similar investments in related cash securities because they isolate the risk to one market risk factor and eliminate the other market risk factors. Investments in cash securities (for instance bonds) have exposure to multiple risk factors (credit and interest rate risk). Because swaps have embedded leverage, they can expose the Fund to substantial risk in the isolated market risk factor.

**Credit Default Swap Contracts.** A credit default swap is a contract that enables an investor to buy or sell protection against a defined-issuer credit event, such as the issuer's failure to make timely payments of interest or principal on a debt security, bankruptcy or restructuring. The Fund may enter into credit default swaps either by buying or selling protection on a corporate issuer, sovereign issuer, or a basket or index of issuers (the "reference asset").

The buyer of protection pays a periodic fee to the seller of protection based on the notional amount of the swap contract. The seller of protection agrees to compensate the buyer of protection for future potential losses as a result of a credit event on the reference asset. The contract effectively transfers the credit event risk of the reference asset from the buyer of protection to the seller of protection.

The ongoing value of the contract will fluctuate throughout the term of the contract based primarily on the credit risk of the reference asset. If the credit quality of the reference asset improves relative to the credit quality at contract initiation, the buyer of protection may have an unrealized loss greater than the anticipated periodic fee owed. This unrealized loss would be the result of current credit protection being cheaper than the cost of credit protection at contract initiation. If the buyer elects to terminate the contract prior to its maturity, and there has been no credit event, this unrealized loss will become realized. If the contract is held to maturity, and there has been no credit event, the realized loss will be equal to the periodic fee paid over the life of the contract.

If there is a credit event, the buyer of protection can exercise its rights under the contract and receive a payment from the seller of protection equal to the notional amount of the swap less the market value of specified debt securities issued by the reference asset. Upon exercise of the contract the difference between such value and the notional amount is recorded as realized gain (loss) and is included on the Consolidated Statement of Operations.

The Fund may purchase or sell credit protection through credit default swaps to increase or decrease exposure to the credit risk of individual issuers and/or indexes of issuers that are either unavailable or considered to be less attractive in the bond market.

The Fund has engaged in spread curve trades by simultaneously purchasing and selling protection through credit default swaps referenced to the same reference asset but with different maturities. Spread curve trades attempt to gain exposure to credit risk on a forward basis by realizing gains on the expected differences in spreads.

For the reporting period, the Fund had ending monthly average notional amounts of \$27,988,462 and \$21,067,538 on credit default swaps to buy protection and credit default swaps to sell protection, respectively.

Additional associated risks to the Fund include counterparty credit risk and liquidity risk.

**Interest Rate Swap Contracts.** An interest rate swap is an agreement between counterparties to exchange periodic payments based on interest rates. One cash flow stream will typically be a floating rate payment based upon a specified floating interest rate while the other is typically a fixed interest rate.

The Fund may enter into interest rate swaps in which it pays the fixed or floating interest rate in order to increase or decrease exposure to interest rate risk. Typically, if relative interest rates rise, floating payments under a swap agreement will be greater than the fixed payments.

For the reporting period, the Fund had ending monthly average notional amounts of \$180,148,007 and \$429,900,062 on interest rate swaps which pay a fixed rate and interest rate swaps which receive a fixed rate, respectively.

Additional associated risks to the Fund include counterparty credit risk and liquidity risk.

**Total Return Swap Contracts.** A total return swap is an agreement between counterparties to exchange periodic payments based on the value of asset or non-asset references. One cash flow is typically based on a non-asset reference (such as an interest rate) and the other on the total return of

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## 6. Use of Derivatives (Continued)

a reference asset (such as a security or a basket of securities or securities index). The total return of the reference asset typically includes appreciation or depreciation on the reference asset, plus any interest or dividend payments.

Total return swap contracts are exposed to the market risk factor of the specific underlying financial instrument or index. Total return swaps are less standard in structure than other types of swaps and can isolate and/or include multiple types of market risk factors including equity risk, credit risk, and interest rate risk.

The Fund may enter into total return swaps to increase or decrease exposure to the credit risk of various indexes or basket of securities. These credit risk related total return swaps require the Fund to pay to, or receive payments from, the counterparty based on the movement of credit spreads of the related indexes or securities.

For the reporting period, the Fund had ending monthly average notional amounts of \$12,950,002 on total return swaps which are long the reference asset.

Additional associated risks to the Fund include counterparty credit risk and liquidity risk.

### Swaption Transactions

The Fund may enter into a swaption contract which grants the purchaser the right, but not the obligation, to enter into a swap transaction at preset terms detailed in the underlying agreement within a specified period of time. The purchaser pays a premium to the swaption writer who bears the risk of unfavorable changes in the preset terms on the underlying swap.

Purchased swaptions are reported as a component of investments in the Consolidated Statement of Investments and the Consolidated Statement of Assets and Liabilities. Written swaptions are reported on a schedule following the Consolidated Statement of Investments and their value is reported as a separate asset or liability line item in the Consolidated Statement of Assets and Liabilities. The net change in unrealized appreciation or depreciation on written swaptions is separately reported in the Consolidated Statement of Operations. When a swaption is exercised, the cost of the swap is adjusted by the amount of premium paid or received. Upon the expiration or closing of an unexercised swaption contract, a gain or loss is reported in the Consolidated Statement of Operations for the amount of the premium paid or received.

The Fund generally will incur a greater risk when it writes a swaption than when it purchases a swaption. When the Fund writes a swaption it will become obligated, upon exercise of the swaption, according to the terms of the underlying agreement. Swaption contracts written by the Fund do not give rise to counterparty credit risk prior to exercise as they obligate the Fund, not its counterparty, to perform. When the Fund purchases a swaption it only risks losing the amount of the premium it paid if the swaption expires unexercised. However, when the Fund exercises a purchased swaption there is a risk that the counterparty will fail to perform or otherwise default on its obligations under the swaption contract.

The Fund may purchase swaptions which give it the option to enter into an interest rate swap in which it pays a floating or fixed interest rate and receives a fixed or floating interest rate in order to increase or decrease exposure to interest rate risk. Purchasing the fixed portion of this swaption becomes more valuable as the reference interest rate decreases relative to the preset interest rate. Purchasing the floating portion of this swaption becomes more valuable as the reference interest rate increases relative to the preset interest rate.

The Fund may purchase swaptions which give it the option to buy or sell credit protection through credit default swaps in order to decrease or increase exposure to the credit risk of individual issuers and/or indexes of issuers. A swaption selling protection becomes more valuable as the likelihood of a credit event on the reference asset decreases. A swaption buying protection becomes more valuable as the likelihood of a credit event on the reference asset increases.

The Fund may write swaptions which give it the obligation, if exercised by the purchaser, to enter into an interest rate swap in which it pays a fixed or floating interest rate and receives a floating or fixed interest rate in order to increase or decrease exposure to interest rate risk. A written swaption paying a fixed rate becomes more valuable as the reference interest rate increases relative to the preset interest rate. A written swaption paying a floating rate becomes more valuable as the reference interest rate decreases relative to the preset interest rate.

The Fund may write swaptions which give it the obligation, if exercised by the purchaser, to sell or buy credit protection through credit default swaps in order to increase or decrease exposure to the credit risk of individual issuers and/or indexes of issuers. A written swaption selling protection becomes more valuable as the likelihood of a credit event on the reference asset decreases. A written swaption buying protection becomes more valuable as the likelihood of a credit event on the reference asset increases.

The Fund may enter into currency swaption contracts with the obligation to pay an interest rate on the US dollar notional amount or various foreign currency notional amounts and receive an interest rate on various foreign currency notional amounts or US dollar notional amounts, with an option to replace the contractual currency as disclosed in the Consolidated Statement of Investments. This is done in order to take a positive investment perspective on the related currencies for which the Fund receives a payment. The US dollar swaption contracts seek to increase exposure to foreign exchange rate risk. The foreign currency swaption contracts seek to decrease exposure to foreign exchange rate risk.

During the reporting period, the Fund had an ending monthly average market value of \$2,935,559 and \$5,998,881 on purchased and written swaptions, respectively.

**Counterparty Credit Risk.** Derivative positions are subject to the risk that the counterparty will not fulfill its obligation to the Fund. The Fund intends to enter into derivative transactions with counterparties that the Manager believes to be creditworthy at the time of the transaction.

The Fund's risk of loss from counterparty credit risk on OTC derivatives is generally limited to the aggregate unrealized gain netted against any collateral held by the Fund. For OTC options purchased, the Fund bears the risk of loss of the amount of the premiums paid plus the positive change in market values net of any collateral held by the Fund should the counterparty fail to perform under the contracts. Options written by the Fund do not typically give rise to counterparty credit risk, as options written generally obligate the Fund and not the counterparty to perform.

## 6. Use of Derivatives (Continued)

To reduce counterparty risk with respect to OTC transactions, the Fund has entered into master netting arrangements, established within the Fund's International Swap and Derivatives Association, Inc. ("ISDA") master agreements, which allow the Fund to make (or to have an entitlement to receive) a single net payment in the event of default (close-out netting) for outstanding payables and receivables with respect to certain OTC positions in swaps, options, swaptions, and forward currency exchange contracts for each individual counterparty. In addition, the Fund may require that certain counterparties post cash and/or securities in collateral accounts to cover their net payment obligations for those derivative contracts subject to ISDA master agreements. If the counterparty fails to perform under these contracts and agreements, the cash and/or securities will be made available to the Fund.

At period end, the Fund has required certain counterparties to post collateral of \$477,762.

ISDA master agreements include credit related contingent features which allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event that, for example, the Fund's net assets decline by a stated percentage or the Fund fails to meet the terms of its ISDA master agreements, which would cause the Fund to accelerate payment of any net liability owed to the counterparty.

For financial reporting purposes, the Fund does not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Consolidated Statement of Assets and Liabilities. Bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events.

The Fund's risk of loss from counterparty credit risk on exchange-traded derivatives cleared through a clearinghouse and for centrally cleared swaps is generally considered lower than as compared to OTC derivatives. However, counterparty credit risk exists with respect to initial and variation margin deposited/paid by the Fund that is held in futures commission merchant, broker and/or clearinghouse accounts for such exchange-traded derivatives and for centrally cleared swaps.

With respect to centrally cleared swaps, such transactions will be submitted for clearing, and if cleared, will be held in accounts at futures commission merchants or brokers that are members of clearinghouses. While brokers, futures commission merchants and clearinghouses are required to segregate customer margin from their own assets, in the event that a broker, futures commission merchant or clearinghouse becomes insolvent or goes into bankruptcy and at that time there is a shortfall in the aggregate amount of margin held by the broker, futures commission merchant or clearinghouse for all its customers, U.S. bankruptcy laws will typically allocate that shortfall on a pro-rata basis across all the broker's, futures commission merchant's or clearinghouse's customers, potentially resulting in losses to the Fund.

There is the risk that a broker, futures commission merchant or clearinghouse will decline to clear a transaction on the Fund's behalf, and the Fund may be required to pay a termination fee to the executing broker with whom the Fund initially enters into the transaction. Clearinghouses may also be permitted to terminate centrally cleared swaps at any time. The Fund is also subject to the risk that the broker or futures commission merchant will improperly use the Fund's assets deposited/paid as initial or variation margin to satisfy payment obligations of another customer. In the event of a default by another customer of the broker or futures commission merchant, the Fund might not receive its variation margin payments from the clearinghouse, due to the manner in which variation margin payments are aggregated for all customers of the broker/futures commission merchant.

Collateral and margin requirements differ by type of derivative. Margin requirements are established by the broker, futures commission merchant or clearinghouse for exchange-traded and cleared derivatives, including centrally cleared swaps. Brokers, futures commission merchants and clearinghouses can ask for margin in excess of the regulatory minimum, or increase the margin amount, in certain circumstances.

Collateral terms are contract specific for OTC derivatives. For derivatives traded under an ISDA master agreement, the collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that amount to the value of any collateral currently pledged by the Fund or the counterparty.

For financial reporting purposes, cash collateral that has been pledged to cover obligations of the Fund, if any, is reported separately on the Consolidated Statement of Assets and Liabilities as cash pledged as collateral. Non-cash collateral pledged by the Fund, if any, is noted in the Consolidated Statement of Investments. Generally, the amount of collateral due from or to a party must exceed a minimum transfer amount threshold (e.g., \$250,000) before a transfer has to be made. To the extent amounts due to the Fund from its counterparties are not fully collateralized, contractually or otherwise, the Fund bears the risk of loss from counterparty nonperformance.

The following table presents by counterparty the Fund's OTC derivative assets net of the related collateral pledged by the Fund at period end:

Counterparty	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities				
	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities*	Financial Instruments Available for Offset	Financial Instruments Collateral Received**	Cash Collateral Received**	Net Amount
Bank of America NA	\$ 2,226,718	\$ (2,226,718)	—	—	—
Barclays Bank plc	2,789,149	(2,789,149)	—	—	—
BNP Paribas	9,634	(9,634)	—	—	—
Citibank NA	1,814,282	(1,814,282)	—	—	—
Deutsche Bank AG	111,596	(72,691)	—	(38,905)	—
Goldman Sachs Bank USA	4,540,438	(4,540,438)	—	—	—
Goldman Sachs International	849,207	(384,791)	—	—	464,416

## 6. Use of Derivatives (Continued)

Counterparty	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities					Net Amount
	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities*	Financial Instruments Available for Offset	Financial Instruments Collateral Received**	Cash Collateral Received**		
HSBC Bank USA NA	\$ 248,890	\$ (166,895)	\$ (81,995)	\$ —		—
JPMorgan Chase Bank NA	6,087,701	(6,087,701)	—	—		—
Morgan Stanley Capital Services, Inc.	626,077	(626,077)	—	—		—
Standard Chartered Bank	732,042	(732,042)	—	—		—
	<b>\$ 20,035,734</b>	<b>\$ (19,450,418)</b>	<b>\$ (81,995)</b>	<b>\$ (38,905)</b>		<b>464,416</b>

\*OTC derivatives are reported gross on the Consolidated Statement of Assets and Liabilities. Exchange traded options and margin related to centrally cleared swaps and futures, if any, are excluded from these reported amounts.

\*\*Reported collateral posted for the benefit of the Fund within this table is limited to the net outstanding amount due from an individual counterparty. The collateral posted for the benefit of the Fund may exceed these amounts.

The following table presents by counterparty the Fund's OTC derivative liabilities net of the related collateral pledged by the Fund at period end:

Counterparty	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities					Net Amount
	Gross Amounts Not Offset in the Consolidated Statement of Assets & Liabilities*	Financial Instruments Available for Offset	Financial Instruments Collateral Pledged**	Cash Collateral Pledged**		
Bank of America NA	\$ (8,979,792)	\$ 2,226,718	\$ —	\$ 5,650,000		(1,103,074)
Barclays Bank plc	(4,235,206)	2,789,149	—	1,120,000		(326,057)
BNP Paribas	(27,427)	9,634	—	—		(17,793)
Citibank NA	(3,842,744)	1,814,282	—	1,910,000		(118,462)
Deutsche Bank AG	(72,691)	72,691	—	—		—
Goldman Sachs Bank USA	(6,659,069)	4,540,438	—	2,118,631		—
Goldman Sachs International	(384,791)	384,791	—	—		—
HSBC Bank USA, NA	(166,895)	166,895	—	—		—
JPMorgan Chase Bank NA	(10,755,600)	6,087,701	—	4,667,899		—
Morgan Stanley Capital Services, Inc.	(1,628,750)	626,077	—	870,000		(132,673)
Nomura Global Financial Products, Inc.	(3,139,829)	—	—	2,710,000		(429,829)
Standard Chartered Bank	(3,151,049)	732,042	—	2,184,000		(235,007)
	<b>\$ (43,043,843)</b>	<b>\$ 19,450,418</b>	<b>\$ —</b>	<b>\$ 21,230,530</b>		<b>(2,362,895)</b>

\*OTC derivatives are reported gross on the Consolidated Statement of Assets and Liabilities. Exchange traded options and margin related to centrally cleared swaps and futures, if any, are excluded from these reported amounts.

\*\*Reported collateral pledged within this table is limited to the net outstanding amount due from the Fund. The securities pledged as collateral by the Fund as reported on the Consolidated Statement of Investments may exceed these amounts.

The following table presents the valuations of derivative instruments by risk exposure as reported within the Consolidated Statement of Assets and Liabilities at period end:

Derivatives Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Consolidated Statement of Assets and Liabilities Location	Value	Consolidated Statement of Assets and Liabilities Location	Value
Credit contracts	Swaps, at value	\$ 352,680	Swaps, at value	\$ 2,733,207
Interest rate contracts	Swaps, at value	131,400	Swaps, at value	287,527
Credit contracts	Centrally cleared swaps, at value	1,101,843	Centrally cleared swaps, at value	138,281

## 6. Use of Derivatives (Continued)

Derivatives Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Consolidated Statement of Assets and Liabilities Location	Value	Consolidated Statement of Assets and Liabilities Location	Value
Interest rate contracts	Centrally cleared swaps, at value	\$ 4,981,866	Centrally cleared swaps, at value	\$ 2,035,695
Interest contracts	Variation margin receivable	73,625*	Variation margin payable	172,244*
Forward currency exchange contracts	Unrealized appreciation on forward currency exchange contracts	7,416,073	Unrealized depreciation on forward currency exchange contracts	12,515,690
Currency contracts			Options written, at value	11,315,501
Credit contracts			Swaptions written, at value	154,214
Interest rate contracts			Swaptions written, at value	16,037,704
Currency contracts	Investments, at value	6,580,809**		
Interest rate contracts	Investments, at value	5,554,772**		
Total		<u>\$ 26,193,068</u>		<u>\$ 45,390,063</u>

\*Includes only the current day's variation margin. Prior variation margin movements have been reflected in cash on the Consolidated Statement of Assets and Liabilities upon receipt or payment.

\*\*Amounts relate to purchased option contracts and purchased swaption contracts, if any.

The effect of derivative instruments on the Consolidated Statement of Operations is as follows:

Amount of Realized Gain or (Loss) Recognized on Derivatives							
Derivatives Not Accounted for as Hedging Instruments	Investment transactions in unaffiliated companies*	Swaption contracts written	Option contracts written	Futures contracts	Forward currency exchange contracts	Swap contracts	Total
Credit contracts	\$ (1,269,155)	\$ 987,709	\$ —	\$ —	\$ —	\$ (1,544,707)	\$ (1,826,153)
Currency Contracts	(3,907,131)	—	(9,570,137)	—	—	—	(13,477,268)
Equity contracts	612,646	—	(635,679)	—	—	39,257	16,224
Forward currency exchange contracts	—	—	—	—	12,345,407	—	12,345,407
Interest rate contracts	(2,276,424)	5,042,098	107,721	(4,393,486)	—	1,626,646	106,555
Total	<u>\$ (6,840,064)</u>	<u>\$ 6,029,807</u>	<u>\$ (10,098,095)</u>	<u>\$ (4,393,486)</u>	<u>\$ 12,345,407</u>	<u>\$ 121,196</u>	<u>\$ (2,835,235)</u>

\*Includes purchased option contracts and purchased swaption contracts, if any.

Amount of Change in Unrealized Gain or (Loss) Recognized on Derivatives							
Derivatives Not Accounted for as Hedging Instruments	Investment transactions in unaffiliated companies*	Option contracts written	Swaption contracts written	Futures contracts	Forward currency exchange contracts	Swap contracts	Total
Credit contracts	\$ —	\$ —	\$ 79,956	\$ —	\$ —	\$ (1,454,956)	\$ (1,375,000)
Currency contracts	(1,683,402)	2,455,973	—	—	—	—	772,571
Equity contracts	412,524	—	—	—	—	—	412,524
Forward currency exchange contracts	—	—	—	—	(3,914,697)	—	(3,914,697)
Interest rate contracts	2,317,763	—	(7,809,330)	(2,143,659)	—	2,141,052	(5,494,174)
Total	<u>\$ 1,046,885</u>	<u>\$ 2,455,973</u>	<u>\$ (7,729,374)</u>	<u>\$ (2,143,659)</u>	<u>\$ (3,914,697)</u>	<u>\$ 686,096</u>	<u>\$ (9,598,776)</u>

\*Includes purchased option contracts and purchased swaption contracts, if any.

## 7. Shares of Beneficial Interest

The Fund has authorized an unlimited number of \$0.001 par value shares of beneficial interest of each class. Transactions in shares of beneficial interest were as follows:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Shares	Amount	Shares	Amount
<b>Non-Service Shares</b>				
Sold	8,490,294	\$ 42,380,338	4,936,516	\$ 24,907,153
Dividends and/or distributions reinvested	3,988,617	18,866,160	1,828,381	9,178,475
Redeemed	(14,761,302)	(71,795,706)	(11,338,330)	(57,398,685)
Net decrease	<u>(2,282,391)</u>	<u>\$ (10,549,208)</u>	<u>(4,573,433)</u>	<u>\$ (23,313,057)</u>

## 7. Shares of Beneficial Interest (Continued)

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Shares	Amount	Shares	Amount
<b>Service Shares</b>				
Sold	9,208,135	\$ 46,798,575	12,450,513	\$ 64,464,791
Dividends and/or distributions reinvested	11,180,836	54,450,673	4,979,157	25,692,448
Redeemed	(37,228,166)	(186,225,544)	(28,206,027)	(146,664,417)
Net decrease	<b>(16,839,195)</b>	<b>\$ (84,976,296)</b>	<b>(10,776,357)</b>	<b>\$ (56,507,178)</b>

## 8. Purchases and Sales of Securities

The aggregate cost of purchases and proceeds from sales of securities, other than short-term obligations and investments in IGMMF, for the reporting period were as follows:

	Purchases	Sales
Investment securities	\$965,760,387	\$1,125,856,667
U.S. government and government agency obligations	—	1,586,013
To Be Announced (TBA) mortgage-related securities	2,370,164,194	2,399,236,376

## 9. Fees and Other Transactions with Affiliates

**Management Fees.** Under the investment advisory agreement, the Fund pays the Manager a management fee based on the daily net assets of the Fund at an annual rate as shown in the following table:

Fee Schedule	
Up to \$200 million	0.75%
Next \$200 million	0.72
Next \$200 million	0.69
Next \$200 million	0.66
Next \$200 million	0.60
Next \$4 billion	0.50
Over \$5 billion	0.48

The Manager also provides investment management related services to the Subsidiary. The Subsidiary pays the Manager a monthly management fee at an annual rate according to the above schedule. The Subsidiary also pays certain other expenses including custody and directors' fees.

The Fund's effective management fee for the reporting period was 0.62% of average annual net assets before any Subsidiary management fees or any applicable waivers.

**Sub-Adviser Fees.** The Manager has retained the Sub-Adviser to provide the day-to-day portfolio management of the Fund and the Subsidiary. Under the Sub-Advisory Agreement, the Manager pays the Sub-Adviser an annual fee in monthly installments, equal to a percentage of the investment management fee collected by the Manager from the Fund and the Subsidiary, which shall be calculated after any investment management fee waivers. The fee paid to the Sub-Adviser is paid by the Manager, not by the Fund.

**Transfer Agent Fees.** OFI Global (the "Transfer Agent") serves as the transfer and shareholder servicing agent for the Fund. The Fund pays the Transfer Agent a fee based on annual net assets. Fees incurred and average net assets for each class with respect to these services are detailed in the Consolidated Statement of Operations and Consolidated Financial Highlights, respectively.

**Sub-Transfer Agent Fees.** The Transfer Agent has retained Shareholder Services, Inc., a wholly-owned subsidiary of OFI (the "Sub-Transfer Agent"), to provide the day-to-day transfer agent and shareholder servicing of the Fund. Under the Sub-Transfer Agency Agreement, the Transfer Agent pays the Sub-Transfer Agent an annual fee in monthly installments, equal to a percentage of the transfer agent fee collected by the Transfer Agent from the Fund, which shall be calculated after any applicable fee waivers. The fee paid to the Sub-Transfer Agent is paid by the Transfer Agent, not by the Fund.

**Trustees' Compensation.** The Fund's Board of Trustees ("Board") has adopted a compensation deferral plan for Independent Trustees that enables Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Fund. For purposes of determining the amount owed to the Trustees under the plan, deferred amounts are treated as though equal dollar amounts had been invested in shares of the Fund or in other Oppenheimer funds selected by the Trustees. The Fund purchases shares of the funds selected for deferral by the Trustees in amounts equal to his or her deemed investment, resulting in a Fund asset equal to the deferred compensation liability. Such assets are included as a component of "Other" within the asset section of the Consolidated Statement of Assets and Liabilities. Deferral of Trustees' fees under the plan will not affect the net assets of the Fund and will not materially affect the Fund's assets, liabilities or net investment income per share. Amounts will be deferred until distributed in accordance with the compensation deferral plan.

**Distribution and Service Plan for Service Shares.** The Fund has adopted a Distribution and Service Plan (the "Plan") pursuant to Rule 12b-1 under the 1940 Act for Service shares to pay OppenheimerFunds Distributor, Inc. (the "Distributor"), for distribution related services, personal service and account maintenance for the Fund's Service shares. Under the Plan, payments are made periodically at an annual rate of 0.25% of the daily net assets of

**9. Fees and Other Transactions with Affiliates (Continued)**

Service shares of the Fund. The Distributor currently uses all of those fees to compensate sponsors of the insurance product that offers Fund shares, for providing personal service and maintenance of accounts of their variable contract owners that hold Service shares. These fees are paid out of the Fund's assets on an on-going basis and increase operating expenses of the Service shares, which results in lower performance compared to the Fund's shares that are not subject to a service fee. Fees incurred by the Fund under the Plan are detailed in the Consolidated Statement of Operations.

**Waivers and Reimbursements of Expenses.** The Manager has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee it receives from the Subsidiary. During the reporting period, the Manager waived \$63,128. This fee waiver and/or expense reimbursement may not be amended or withdrawn for one year from the date of the Fund's prospectus, unless approved by the Board.

The Manager will waive fees and/or reimburse Fund expenses in an amount equal to the indirect management fees incurred through the Fund's investments in Affiliated Funds. During the reporting period, the Manager waived fees and/or reimbursed the Fund \$1,031,264 for these management fees. This fee waiver and/or expense reimbursement may not be amended or withdrawn for one year from the date of the Fund's prospectus, unless approved by the Board.

**10. Borrowings and Other Financing**

**Joint Credit Facility.** A number of mutual funds managed by the Manager participate in a \$1.95 billion revolving credit facility (the "Facility") intended to provide short-term financing, if necessary, subject to certain restrictions in connection with atypical redemption activity. Expenses and fees related to the Facility are paid by the participating funds and are disclosed separately or as other expenses on the Consolidated Statement of Operations. The Fund did not utilize the Facility during the reporting period.

**11. Pending Acquisition**

On October 18, 2018, Massachusetts Mutual Life Insurance Company, an indirect corporate parent of the Sub-Adviser and the Manager, announced that it has entered into an agreement whereby Invesco Ltd. ("Invesco"), a global investment management company, will acquire the Sub-Adviser (the "Transaction"). In connection with the Transaction, on January 11, 2019, the Fund's Board unanimously approved an Agreement and Plan of Reorganization (the "Agreement"), which provides for the transfer of the assets and liabilities of the Fund to a corresponding, newly formed fund (the "Acquiring Fund") in the Invesco family of funds (the "Reorganization") in exchange for shares of the corresponding Acquiring Fund of equal value to the value of the shares of the Fund as of the close of business on the closing date. Although the Acquiring Fund will be managed by Invesco Advisers, Inc., the Acquiring Fund will, as of the closing date, have the same investment objective and substantially similar principal investment strategies and risks as the Fund. After the Reorganization, Invesco Advisers, Inc. will be the investment adviser to the Acquiring Fund, and the Fund will be liquidated and dissolved under applicable law and terminate its registration under the Investment Company Act of 1940, as amended. The Reorganization is expected to be a tax-free reorganization for U.S. federal income tax purposes.

The Reorganization is subject to the approval of shareholders of the Fund. Shareholders of record of the Fund on January 14, 2019 will be entitled to vote on the Reorganization and will receive a combined prospectus and proxy statement describing the Reorganization, the shareholder meeting, and a discussion of the factors the Fund's Board considered in approving the Agreement. The combined prospectus and proxy statement is expected to be distributed to shareholders of record on or about February 28, 2019. The anticipated date of the shareholder meeting is on or about April 12, 2019.

If shareholders approve the Agreement and certain other closing conditions are satisfied or waived, the Reorganization is expected to close during the second quarter of 2019, or as soon as practicable thereafter. This is subject to change.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees  
Oppenheimer Variable Account Funds:

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of assets and liabilities of Oppenheimer Global Strategic Income Fund/VA, a separate series of Oppenheimer Variable Account Funds, and subsidiary (the "Fund"), including the consolidated statement of investments, as of December 31, 2018, the related consolidated statement of operations for the year then ended, the consolidated statements of changes in net assets for each of the years in the two year period then ended, and the related consolidated notes (collectively, the "consolidated financial statements") and the consolidated financial highlights for each of the years in the five year period then ended. In our opinion, the consolidated financial statements and consolidated financial highlights present fairly, in all material respects, the consolidated financial position of the Fund as of December 31, 2018, the results of their consolidated operations for the year then ended, the changes in their consolidated net assets for each of the years in the two year period then ended, and the consolidated financial highlights for each of the years in the five year period then ended, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and consolidated financial highlights are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements and consolidated financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements and consolidated financial highlights. Such procedures also included confirmation of securities owned as of December 31, 2018, by correspondence with the custodian, brokers and the transfer agent, or by other appropriate auditing procedures. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and consolidated financial highlights. We believe that our audits provide a reasonable basis for our opinion.

### KPMG LLP

We have not been able to determine the specific year that we began serving as the auditor of one or more Oppenheimer Funds investment companies, however we are aware that we have served as the auditor of one or more Oppenheimer Funds investment companies since at least 1969.

Denver, Colorado  
February 19, 2019



## FEDERAL INCOME TAX INFORMATION Unaudited

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In early 2019, if applicable, shareholders of record received information regarding all dividends and distributions paid to them by the Fund during calendar year 2018.

Dividends, if any, paid by the Fund during the reporting period which are not designated as capital gain distributions should be multiplied by the maximum amount allowable but not less than 3.50% to arrive at the amount eligible for the corporate dividend-received deduction.

Dividends, if any, paid by the Fund during the reporting period which are not designated as capital gain distributions, may be eligible for lower individual income tax rates to the extent that the Fund has received qualified dividend income as stipulated by recent tax legislation. In early 2019, shareholders of record received information regarding the percentage of distributions that are eligible for lower individual income tax rates. The amount will be the maximum amount allowed.

The foregoing information is presented to assist shareholders in reporting distributions received from the Fund to the Internal Revenue Service. Because of the complexity of the federal regulations which may affect your individual tax return and the many variations in state and local tax regulations, we recommend that you consult your tax advisor for specific guidance.

The Fund has entered into an investment advisory agreement with OFI Global Asset Management, Inc. ("OFI Global" or the "Adviser"), a wholly-owned subsidiary of OppenheimerFunds, Inc. ("OFI" or the "Sub-Adviser") ("OFI Global" and "OFI" together the "Managers") and OFI Global has entered into a sub-advisory agreement with OFI whereby OFI provides investment sub-advisory services to the Fund (collectively, the "Agreements"). Each year, the Board of Trustees (the "Board"), including a majority of the independent Trustees, is required to determine whether to approve the terms of the Agreements and the renewal thereof. The Investment Company Act of 1940, as amended, requires that the Board request and evaluate, and that the Managers provide, such information as may be reasonably necessary to evaluate the terms of the Agreements. The Board employs an independent consultant to prepare a report that provides information, including comparative information that the Board requests for that purpose. In addition to in-person meetings focused on this evaluation, the Board receives information throughout the year regarding Fund services, fees, expenses and performance.

The Managers and the independent consultant provided information to the Board on the following factors: (i) the nature, quality and extent of the Managers' services, (ii) the comparative investment performance of the Fund and the Managers, (iii) the fees and expenses of the Fund, including comparative fee and expense information, (iv) the profitability of the Managers and their affiliates, including an analysis of the cost of providing services, (v) whether economies of scale are realized as the Fund grows and whether fee levels reflect these economies of scale for Fund investors and (vi) other benefits to the Managers from their relationship with the Fund. The Board was aware that there are alternatives to retaining the Managers.

Outlined below is a summary of the principal information considered by the Board as well as the Board's conclusions.

**Nature, Quality and Extent of Services.** The Board considered information about the nature, quality and extent of the services provided to the Fund and information regarding the Managers' key personnel who provide such services. The Managers' duties include providing the Fund with the services of the Sub-Adviser's portfolio managers and investment team, who provide research, analysis and other advisory services in regard to the Fund's investments; and securities trading services. OFI Global is responsible for oversight of third-party service providers; monitoring compliance with applicable Fund policies and procedures and adherence to the Fund's investment restrictions; risk management; and oversight of the Sub-Adviser. OFI Global is also responsible for providing certain administrative services to the Fund. Those services include providing and supervising all administrative and clerical personnel who are necessary in order to provide effective corporate administration for the Fund; compiling and maintaining records with respect to the Fund's operations; preparing and filing reports required by the U.S. Securities and Exchange Commission; preparing periodic reports regarding the operations of the Fund for its shareholders; preparing proxy materials for shareholder meetings; and preparing the registration statements required by federal and state securities laws for the sale of the Fund's shares. OFI Global also provides the Fund with office space, facilities and equipment.

The Board also considered the quality of the services provided and the quality of the Managers' resources that are available to the Fund. The Board took account of the fact that the Sub-Adviser has over fifty years of experience as an investment adviser and that its assets under management rank it among the top mutual fund managers in the United States. The Board evaluated the Managers' advisory, administrative, accounting, legal, compliance and risk management services, among other services, and information the Board has received regarding the experience and professional qualifications of the Managers' key personnel and the size and functions of their staff. In its evaluation of the quality of the portfolio management services provided, the Board considered the experience of Hemant Bajjal, Krishna Memani, Ruta Ziverte and Chris Kelly, the portfolio managers for the Fund, and the Sub-Adviser's investment team and analysts. The Board members also considered the totality of their experiences with the Managers as directors or trustees of the Fund and other funds advised by the Managers. The Board considered information regarding the quality of services provided by affiliates of the Managers, which the Board members have become knowledgeable about through their experiences with the Managers and in connection with the review or renewal of the Fund's service agreements or service providers. The Board concluded, in light of the Managers' experience, reputation, personnel, operations and resources that the Fund benefits from the services provided under the Agreements.

**Investment Performance of the Managers and the Fund.** Throughout the year, the Managers provided information on the investment performance of the Fund, the Adviser and the Sub-Adviser, including comparative performance information. The Board also reviewed information, prepared by the Managers and by the independent consultant, comparing the Fund's historical performance to relevant market indices and to the performance of other multisector bond funds underlying variable insurance products. The Board considered that the Fund underperformed its category median during all periods. The Board considered that, as a result of the Board's conversations with the Adviser, and in an effort to address performance, the Adviser added two portfolio managers to the Fund's investment team in January 2017. The Board further noted that a portfolio manager of the Fund was replaced in January 2018. It also considered the Fund's performance against its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, which the Managers stated is a good comparison for Fund performance, and noted that the Fund outperformed its benchmark during the one-, three- and five-year periods.

**Fees and Expenses of the Fund.** The Board reviewed the fees paid to the Adviser and the other expenses borne by the Fund. The Board noted that the Adviser, not the Fund, pays the Sub-Adviser's fee under the sub-advisory agreement. The independent consultant provided comparative data in regard to the fees and expenses of the Fund and other multisector bond funds underlying variable insurance products. In reviewing the fees and expenses charged to the VA funds, the Board considered the Adviser's assertion that, because there is much greater disparity in the fees and services that may be provided by a manager to a VA fund as opposed to a retail fund, when comparing the expenses of the various VA funds to those of retail funds, it is most appropriate to focus on total expenses (rather than on the management fees). The Board considered that the Fund's total expenses were higher than its category median and its peer group median. The Board also considered that the Fund's contractual management fee was lower than its category median and equal to its peer group median. The Board further considered the Fund's current contractual fee waivers, specifically that (a) the Adviser has contractually agreed to waive fees and/or reimburse Fund expenses in an amount equal to the management fees incurred indirectly through the Fund's investment in funds managed by the Adviser or its affiliates, which may not be amended or withdrawn for one year from the date of the Fund's prospectus, unless approved by the Board and (b) the Adviser has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee it receives from the Fund's subsidiary, which will continue to be in effect for so long as the Fund invests in the subsidiary and may not be terminated unless approved by the Board.

**Economies of Scale and Profits Realized by the Managers.** The Board considered information regarding the Managers' costs in serving as the Fund's investment adviser and sub-adviser, including the costs associated with the personnel and systems necessary to manage the Fund, and information regarding the Managers' profitability from their relationship with the Fund. The Board also considered that the Managers must be able to pay and retain experienced professional personnel at competitive rates to provide quality services to the Fund. The Board reviewed whether the Managers may realize economies of scale in managing and supporting the Fund. The Board noted that the Fund currently has management fee breakpoints, which are intended to share with Fund shareholders economies of scale that may exist as the Fund's assets grow.

**Other Benefits to the Managers.** In addition to considering the profits realized by the Managers, the Board considered information that was provided regarding the direct and indirect benefits the Managers receive as a result of their relationship with the Fund, including compensation paid to the Managers' affiliates.

**Conclusions.** These factors were also considered by the independent Trustees meeting separately from the full Board, assisted by experienced counsel to the Fund and to the independent Trustees. Fund counsel and the independent Trustees' counsel are independent of the Managers within the meaning and intent of the Securities and Exchange Commission Rules.

Based on its review of the information it received and its evaluations described above, the Board, including a majority of the independent Trustees, decided to continue the Agreements through August 31, 2019. In arriving at its decision, the Board did not identify any factor or factors as being more important than others, but considered all of the above information, and considered the terms and conditions of the Agreements, including the management fees, in light of all the surrounding circumstances.

The Fund has adopted Portfolio Proxy Voting Policies and Guidelines under which the Fund votes proxies relating to securities ("portfolio proxies") held by the Fund. A description of the Fund's Portfolio Proxy Voting Policies and Guidelines is available (i) without charge, upon request, by calling the Fund toll-free at 1.800.CALL OPP (225.5677), (ii) on the Fund's website at [www.oppenheimerfunds.com](http://www.oppenheimerfunds.com), and (iii) on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, the Fund is required to file Form N-PX, with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. The Fund's voting record is available (i) without charge, upon request, by calling the Fund toll-free at 1.800.CALL OPP (225.5677), and (ii) in the Form N-PX filing on the SEC's website at [www.sec.gov](http://www.sec.gov).

The Fund files its complete schedule of portfolio holdings with the SEC for the first quarter and the third quarter of each fiscal year on Form N-Q. The Fund's Form N-Q filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Name, Position(s) Held with the Fund, Length of Service, Year of Birth**

**INDEPENDENT TRUSTEES**

**Robert J. Malone,**

Chairman of the Board of Trustees (since 2016),  
Trustee (since 2002)  
Year of Birth: 1944

**Andrew J. Donohue,**

Trustee (since 2017)  
Year of Birth: 1950

**Richard F. Grabish,**

Trustee (since 2012)  
Year of Birth: 1948

**Beverly L. Hamilton,**

Trustee (since 2002)  
Year of Birth: 1946

**Victoria J. Herget,**

Trustee (since 2012)  
Year of Birth: 1951

**Karen L. Stuckey,**

Trustee (since 2012)  
Year of Birth: 1953

**Principal Occupation(s) During the Past 5 Years; Other Trusteeships/Directorships Held; Number of Portfolios in the Fund Complex Currently Overseen**

*The address of each Trustee in the chart below is 6803 S. Tucson Way, Centennial, Colorado 80112-3924. Each Trustee serves for an indefinite term, or until his or her resignation, retirement, death or removal. Each of the Trustees in the chart below oversees 58 portfolios in the OppenheimerFunds complex.*

Chairman - Colorado Market of MidFirst Bank (since January 2015); Chairman of the Board (2012-2016) and Director (August 2005-January 2016) of Jones International University (educational organization); Trustee of the Gallagher Family Foundation (non-profit organization) (2000-2016); Chairman, Chief Executive Officer and Director of Steele Street Bank Trust (commercial banking) (August 2003-January 2015); Director of Opera Colorado Foundation (non-profit organization) (2008-2012); Director of Colorado UpLIFT (charitable organization) (1986-2010); Director of Jones Knowledge, Inc. (2006-2010); Former Chairman of U.S. Bank-Colorado (subsidiary of U.S. Bancorp and formerly Colorado National Bank) (July 1996-April 1999); Director of Commercial Assets, Inc. (real estate investment trust) (1993-2000); Director of U.S. Exploration, Inc. (oil and gas exploration) (1997-February 2004); Chairman of the Board (1991-1994) and Trustee (1985-1994) of Regis University; and Chairman of the Board (1990-1991) and Member (1984-1999) of Young Presidents Organization. Mr. Malone has served on the Boards of certain Oppenheimer funds since 2002, during which time he has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

Director, Mutual Fund Directors Forum (since February 2018); Of Counsel, Shearman & Sterling LLP (since September 2017); Chief of Staff of the U.S. Securities and Exchange Commission (regulator) (June 2015-February 2017); Managing Director and Investment Company General Counsel of Goldman Sachs (investment bank) (November 2012-May 2015); Partner at Morgan Lewis & Bockius, LLP (law firm) (March 2011-October 2012); Director of the Division of Investment Management of U.S. Securities and Exchange Commission (regulator) (May 2006-November 2010); Global General Counsel of Merrill Lynch Investment Managers (investment firm) (May 2003-May 2006); General Counsel (October 1991-November 2001) and Executive Vice President (January 1993-November 2001) of OppenheimerFunds, Inc. (investment firm) (June 1991-November 2001). Mr. Donohue has served on the Boards of certain Oppenheimer funds since 2017, during which time he has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

Formerly Senior Vice President and Assistant Director of Sales and Marketing (March 1997-December 2007), Director (March 1987-December 2007) and Manager of Private Client Services (June 1985-June 2005) of A.G. Edwards & Sons, Inc. (broker/dealer and investment firm); Chairman and Chief Executive Officer of A.G. Edwards Trust Company, FSB (March 2001-December 2007); President and Vice Chairman of A.G. Edwards Trust Company, FSB (investment adviser) (April 1987-March 2001); President of A.G. Edwards Trust Company, FSB (investment adviser) (June 2005-December 2007). Mr. Grabish has served on the Boards of certain Oppenheimer funds since 2001, during which time he has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

Trustee of Monterey Institute for International Studies (educational organization) (2000-2014); Board Member of Middlebury College (educational organization) (December 2005-June 2011); Director of the Board (1991-2016), Vice Chairman of the Board (2006-2009) and Chairman of the Board (2010-2013) of American Funds' Emerging Markets Growth Fund, Inc. (mutual fund); Director of The California Endowment (philanthropic organization) (April 2002-April 2008); Director (February 2002-2005) and Chairman of Trustees (2006-2007) of the Community Hospital of Monterey Peninsula; President of ARCO Investment Management Company (February 1991-April 2000); Member of the investment committees of The Rockefeller Foundation (2001-2006) and The University of Michigan (since 2000); Advisor at Credit Suisse First Boston's Sprout venture capital unit (venture capital fund) (1994-January 2005); Trustee of MassMutual Institutional Funds (investment company) (1996-June 2004); Trustee of MML Series Investment Fund (investment company) (April 1989-June 2004); Member of the investment committee of Hartford Hospital (2000-2003); and Advisor to Unilever (Holland) pension fund (2000-2003). Ms. Hamilton has served on the Boards of certain Oppenheimer funds since 2002, during which time she has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

Board Chair (2008-2015) and Director (2004-Present) of United Educators (insurance company); Trustee (since 2000) and Chair (2010-2017) of Newberry Library (independent research library); Trustee, Mather LifeWays (senior living organization) (since 2001); Independent Director of the First American Funds (mutual fund family) (2003-2011); former Managing Director (1993-2001), Principal (1985-1993), Vice President (1978-1985) and Assistant Vice President (1973-1978) of Zurich Scudder Investments (investment adviser) (and its predecessor firms); Trustee (1992-2007), Chair of the Board of Trustees (1999-2007), Investment Committee Chair (1994-1999) and Investment Committee member (2007-2010) of Wellesley College; Trustee, BoardSource (non-profit organization) (2006-2009) and Chicago City Day School (K-8 School) (1994-2005). Ms. Herget has served on the Boards of certain Oppenheimer funds since 2012, during which time she has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

Member (since May 2015) of Desert Mountain Community Foundation Advisory Board (non-profit organization); Partner (1990-2012) of PricewaterhouseCoopers LLP (professional services firm) (held various positions 1975-1990); Trustee (1992-2006); member of Executive, Nominating and Audit Committees and Chair of Finance Committee (1992-2006), and Emeritus Trustee (since 2006) of Lehigh University; member, Women's Investment Management Forum (professional organization) (since inception) and Trustee of Jennies School for Little Children (non-profit) (2011-2014). Ms. Stuckey has served on the Boards of certain Oppenheimer funds since 2012, during which time she has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

**James D. Vaughn,**  
Trustee (since 2012)  
Year of Birth: 1945

Retired; former managing partner (1994-2001) of Denver office of Deloitte & Touche LLP, (held various positions in Denver and New York offices from 1969-1993); Trustee and Chairman of the Audit Committee of Schroder Funds (2003-2012); Board member and Chairman of Audit Committee of AMG National Trust Bank (since 2005); Trustee and Investment Committee member, University of South Dakota Foundation (since 1996); Board member, Audit Committee Member and past Board Chair, Junior Achievement (since 1993); former Board member, Mile High United Way, Boys and Girls Clubs, Boy Scouts, Colorado Business Committee for the Arts, Economic Club of Colorado and Metro Denver Network. Mr. Vaughn has served on the Boards of certain Oppenheimer funds since 2012, during which time he has become familiar with the Fund's (and other Oppenheimer funds') financial, accounting, regulatory and investment matters and has contributed to the Board's deliberations.

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#### INTERESTED TRUSTEE AND OFFICER

*Mr. Steinmetz is an "Interested Trustee" because he is affiliated with the Manager and the Sub-Adviser by virtue of his positions as Chairman and director of the Sub-Adviser and officer and director of the Manager. Both as a Trustee and as an officer, Mr. Steinmetz serves for an indefinite term, or until his resignation, retirement, death or removal. Mr. Steinmetz's address is 225 Liberty Street, New York, New York 10281-1008. Mr. Steinmetz is an officer of 104 portfolios in the OppenheimerFunds complex.*

**Arthur P. Steinmetz,**  
Trustee (since 2015), President and  
Principal Executive Officer (since 2014)  
Year of Birth: 1958

Chairman of OppenheimerFunds, Inc. (since January 2015); CEO and Chairman of OFI Global Asset Management, Inc. (since July 2014), President of OFI Global Asset Management, Inc. (since May 2013), a Director of OFI Global Asset Management, Inc. (since January 2013), Director of OppenheimerFunds, Inc. (since July 2014), President, Management Director and CEO of Oppenheimer Acquisition Corp. (OppenheimerFunds, Inc.'s parent holding company) (since July 2014), and President and Director of OFI SteelPath, Inc. (since January 2013). Chief Investment Officer of the OppenheimerFunds advisory entities (January 2013-December 2013); Executive Vice President of OFI Global Asset Management, Inc. (January 2013-May 2013); Chief Investment Officer of OppenheimerFunds, Inc. (October 2010-December 2012); Chief Investment Officer, Fixed-Income, of OppenheimerFunds, Inc. (April 2009-October 2010); Executive Vice President of OppenheimerFunds, Inc. (October 2009-December 2012); Director of Fixed Income of OppenheimerFunds, Inc. (January 2009-April 2009); and a Senior Vice President of OppenheimerFunds, Inc. (March 1993-September 2009).

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#### OTHER OFFICERS OF THE FUND

*The addresses of the Officers in the chart below are as follows: for Messrs. Baijal, Memani, Kelly Mss. Ziverte, Lo Bessette, Foxson and Picciotto, 225 Liberty Street, New York, New York 10281-1008, for Mr. Petersen 6803 S. Tucson Way, Centennial, Colorado 80112-3924. Each Officer serves for an indefinite term or until his or her resignation, retirement, death or removal.*

**Hemant Baijal,**  
Vice President (since 2015)  
Year of Birth: 1962

Senior Vice President of the Sub-Adviser (since January 2016); Senior Portfolio Manager of the Sub-Adviser (since July 2011); Co-Head of the Global Debt Team (since January 2015); Vice President of the Sub-Adviser (July 2011-January 2016). Co-founder, Partner and Portfolio Manager of Six Seasons Global Asset Management (January 2009-December 2010); Partner and Portfolio Manager of Aravali Partners, LLC (September 2006-December 2008); Partner and Portfolio Manager at Havell Capital Management, LLC (November 1996-August 2006).

**Krishna Memani,**  
Vice President (since 2009)  
Year of Birth: 1960

President of the Sub-Adviser (since January 2013); Executive Vice President of the Manager (since January 2014) and Chief Investment Officer of the OppenheimerFunds advisory entities (since January 2014). Chief Investment Officer, Fixed Income of the Sub-Adviser (January 2013-December 2013); Head of the Investment Grade Fixed Income Team of the Sub-Adviser (March 2009-January 2014); Director of Fixed Income of the Sub-Adviser (October 2010-December 2012); Senior Vice President of the Sub-Adviser (March 2009-December 2012) and Senior Vice President of OFI Global Institutional, Inc. (April 2009-December 2012). Managing Director and Head of the U.S. and European Credit Analyst Team at Deutsche Bank Securities (June 2006-January 2009). Chief Credit Strategist at Credit Suisse Securities (August 2002-March 2006). Managing Director and Senior Portfolio Manager at Putnam Investments (September 1998-June 2002).

**Chris Kelly,**  
Vice President (since 2017)  
Year of Birth: 1967

Senior Vice President of the Sub-Adviser (since January 2016); Portfolio Manager of the Sub-Adviser (since March 2015); Co-Head of the Global Debt Team (since March 2015); Vice President of the Sub-Adviser (March 2015-January 2016). Deputy Head of Emerging Markets Fixed Income at BlackRock, Inc. (June 2012 - January 2015); Portfolio Manager and Deputy Chief Investment Officer of Emerging Markets at Fisher Francis Trees and Watts, a BNP Paribas Investment Partner (February 2008 - April 2012).

**Ruta Ziverte,**  
Vice President (since 2017)  
Year of Birth: 1973

Vice President and Senior Portfolio Manager of the Sub-Adviser (July 2015). Prior to joining the Sub-Adviser, she was Senior Vice President and Portfolio Manager at GE Asset Management (June 2009 to June 2015).

**Cynthia Lo Bessette,**  
Secretary and Chief Legal Officer (since 2016)  
Year of Birth: 1969

Executive Vice President, General Counsel and Secretary of OFI Global Asset Management, Inc. (since February 2016); Senior Vice President and Deputy General Counsel of OFI Global Asset Management, Inc. (March 2015-February 2016); Chief Legal Officer of OppenheimerFunds, Inc. and OppenheimerFunds Distributor, Inc. (since February 2016); Vice President, General Counsel and Secretary of Oppenheimer Acquisition Corp. (since February 2016); General Counsel of OFI SteelPath, Inc., OFI Advisors, LLC and Index Management Solutions, LLC (since February 2016); Chief Legal Officer of OFI Global Institutional, Inc., HarbourView Asset Management Corporation, OFI Global Trust Company, Oppenheimer Real Asset Management, Inc., OFI Private Investments Inc., Shareholder Services, Inc. and Trinity Investment Management Corporation (since February 2016); Corporate Counsel (February 2012-March 2015) and Deputy Chief Legal Officer (April 2013-March 2015) of Jennison Associates LLC; Assistant General Counsel (April 2008-September 2009) and Deputy General Counsel (October 2009-February 2012) of Lord Abbett & Co. LLC.

**Jennifer Foxson,**  
Vice President and Chief Business  
Officer (since 2014)  
Year of Birth: 1969

Senior Vice President of OppenheimerFunds Distributor, Inc. (since June 2014); Vice President of OppenheimerFunds Distributor, Inc. (April 2006-June 2014); Vice President of OppenheimerFunds, Inc. (January 1998-March 2006); Assistant Vice President of OppenheimerFunds, Inc. (October 1991-December 1998).

## TRUSTEES AND OFFICERS Unaudited / Continued

### **Mary Ann Picciotto,**

Chief Compliance Officer and Chief  
Anti-Money Laundering Officer (since 2014)  
Year of Birth: 1973

Senior Vice President and Chief Compliance Officer of OFI Global Asset Management, Inc. (since March 2014); Chief Compliance Officer of OppenheimerFunds, Inc., OFI SteelPath, Inc., OFI Global Institutional, Inc., Oppenheimer Real Asset Management, Inc., OFI Private Investments Inc., Harborview Asset Management Corporation, Trinity Investment Management Corporation, and Shareholder Services, Inc. (since March 2014); Managing Director of Morgan Stanley Investment Management Inc. and certain of its various affiliated entities; Chief Compliance Officer of various Morgan Stanley Funds (May 2010-January 2014); Chief Compliance Officer of Morgan Stanley Investment Management Inc. (April 2007-January 2014).

### **Brian S. Petersen,**

Treasurer and Principal Financial &  
Accounting Officer (since 2016)  
Year of Birth: 1970

Senior Vice President of OFI Global Asset Management, Inc. (since January 2017); Vice President of OFI Global Asset Management, Inc. (January 2013-January 2017); Vice President of OppenheimerFunds, Inc. (February 2007-December 2012); Assistant Vice President of OppenheimerFunds, Inc. (August 2002-2007).

**The Fund's Statement of Additional Information contains additional information about the Fund's Trustees and Officers and is available without charge, upon request, by calling 1.800.988.8287.**

# OPPENHEIMER GLOBAL STRATEGIC INCOME FUND/VA

## A Series of Oppenheimer Variable Account Funds

<b>Manager</b>	OFI Global Asset Management, Inc.
<b>Sub-Adviser</b>	OppenheimerFunds, Inc.
<b>Distributor</b>	OppenheimerFunds Distributor, Inc.
<b>Transfer and Shareholder Servicing Agent</b>	OFI Global Asset Management, Inc.
<b>Sub-Transfer Agent</b>	Shareholder Services, Inc. DBA OppenheimerFunds Services
<b>Independent Registered Public Accounting Firm</b>	KPMG LLP
<b>Legal Counsel</b>	Ropes & Gray LLP

**Before investing in any of the Oppenheimer funds, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses and summary prospectuses contain this and other information about the funds, and may be obtained by asking your financial advisor, visiting [oppenheimerfunds.com](http://oppenheimerfunds.com) or calling us at 1.800.988.8287. Read prospectuses and summary prospectuses carefully before investing.**

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**OppenheimerFunds®**  
The Right Way  
to Invest



# Franklin Templeton Variable Insurance Products Trust



**Internet Delivery of Shareholder Reports:** Effective January 1, 2021, as permitted by regulations adopted by the SEC, you may not be receiving paper copies of the Fund's annual or semiannual shareholder reports by mail, unless you specifically request them from the insurance company that offers your variable annuity or variable life insurance contract or your financial intermediary. Instead of delivering paper copies of the report, the insurance company may choose to make the reports available on a website, and will notify you by mail each time a shareholder report is posted and provide you with a website link to access the report. Instructions for requesting paper copies will be provided by your insurance company.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the insurance company or your financial intermediary electronically by following the instructions provided by the insurance company or by contacting your financial intermediary.

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

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

# Franklin Templeton Variable Insurance Products Trust Annual Report

## Table of Contents

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<b>Important Notes to Performance Information</b> .....	i
<b>*Supplement to the Prospectus for all Funds</b> .....	PS-1
<b>Fund Summary</b>	
Templeton Developing Markets VIP Fund .....	TD-1
<b>Index Descriptions</b> .....	I-1
<b>Board Members and Officers</b> .....	BOD-1
<b>Shareholder Information</b> .....	SI-1

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

<b>Not FDIC Insured   May Lose Value   No Bank Guarantee</b>
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# Important Notes to Performance Information

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

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not

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

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

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

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

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

# Templeton Developing Markets VIP Fund

This annual report for Templeton Developing Markets VIP Fund covers the fiscal year ended December 31, 2018.

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

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

Periods ended 12/31/18	1-Year	5-Year	10-Year
Average Annual Total Return	-15.79%	+0.45%	+6.95%

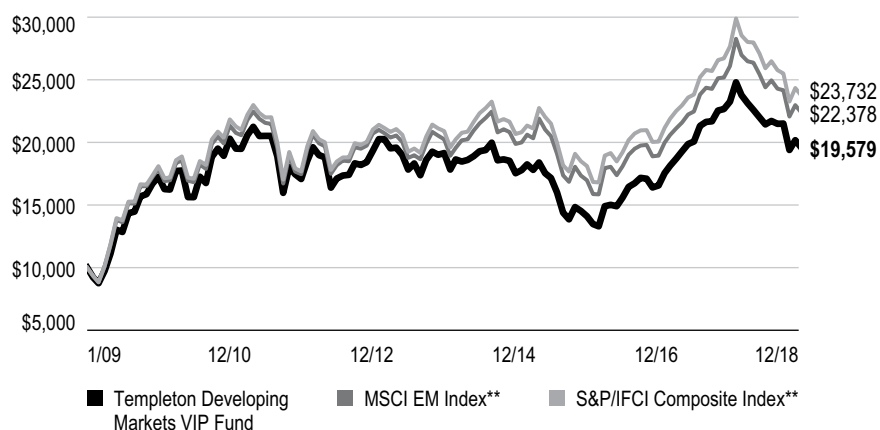
\*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/19. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

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

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

## Total Return Index Comparison for a Hypothetical \$10,000 Investment (1/1/09–12/31/18)

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



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

## Fund Goal and Main Investments

The Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in emerging market investments.

## Fund Risks

All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with developing markets are magnified in frontier markets. The Fund is designed for the aggressive portion of a well-diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

## Performance Overview

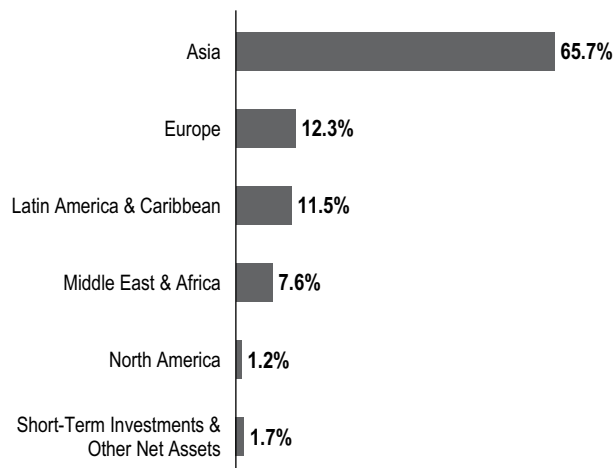
You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index had a -14.25% total return, and the S&P/IFCI Composite Index had a -14.22% total return for the same period.<sup>1</sup> Please note, index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

## Economic and Market Overview

Emerging market economies in general continued to grow faster than developed market economies during the 12 months under review. China's economy continued to grow in 2018's third quarter, though at its slowest annual rate since 2009. During 2018's first three quarters, China saw decreased annual growth rates across sectors, including industrial production, services, fixed-asset investment, and exports and imports, amid

## Geographic Composition

Based on Total Net Assets as of 12/31/18



indications that trade tensions with the U.S. negatively affected the economy. India's annual growth rate in 2018's third quarter moderated from the prior quarter, as high oil prices and a depreciated rupee hurt consumer spending. Growth in financial services and manufacturing also slowed. Russia's economy grew in 2018's third quarter, though at a slower annual growth rate than the prior quarter as the positive effects of the summer World Cup faded. Growth slowed for accommodations and food services, transportation, and information and communication. Brazil's economy expanded at a faster annual rate in the third quarter. The country's exports significantly rebounded following a nationwide trucker's strike in May. Household spending growth slowed, while growth accelerated in the services, transportation and financial services sectors. Among other emerging markets, the economies of Mexico, Poland and Turkey continued to grow.

Monetary policies varied among emerging market central banks. Brazil's central bank cut its benchmark interest rate twice during the 12-month period, while some, including those of India, Turkey and the Czech Republic, raised their benchmark interest rates multiple times. Mexico's central bank raised its benchmark interest rate four times to a 10-year high, citing global economic and domestic political uncertainties. Russia's central bank changed its benchmark interest rate several times, but at period-end the rate was the same as at the beginning of the period. South Korea's and Chile's central banks raised their benchmark interest rates during the period,

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

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

while Taiwan's central bank left its benchmark interest rate unchanged. The People's Bank of China left its benchmark interest rate unchanged during the period, but it took measures to improve financial liquidity to mitigate the negative effects of the U.S.-China trade dispute and support economic growth.

Emerging market stocks declined during the 12 months under review due to concerns about global economic growth, rising U.S. interest rates, a strengthening U.S. dollar and heightened international trade tensions, particularly between the U.S. and China. Contagion concerns about economic crises in Turkey and Argentina also weighed on investor sentiment. Emerging market equities reversed some of their losses near period-end, amid a trade truce between the U.S. and China and signals the U.S. Federal Reserve would slow its pace of interest rate increases. European stocks were pressured by political and economic instability in the region, particularly in Italy and Turkey. Asian equities were hurt by declines in technology stocks and increased tensions in the Korean peninsula, though tensions eased later in the year. In this environment, emerging market stocks, as measured by the MSCI EM Index, had a -14.25% total return for the 12 months ended December 31, 2018.<sup>1</sup>

## Investment Strategy

We employ a fundamental research, value-oriented, long-term investment approach. We focus on the market price of a company's securities relative to our evaluation of its long-term earnings, asset value and cash flow potential. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price of the company's securities. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment.

## Manager's Discussion

During the 12 months under review, key performance detractors included Brilliance China Automotive Holdings, Samsung Electronics and Naspers.

Brilliance China Automotive manufactures and sells automobiles for the Chinese domestic market, predominantly through its joint venture with BMW,<sup>2</sup> a German luxury car maker. BMW's plans to increase its joint venture stake to a majority share was poorly received by investors, who expressed concerns about some aspects of the proposed deal terms,

## Top 10 Countries

12/31/18

	% of Total Net Assets
China	20.6%
South Korea	16.3%
Taiwan	10.2%
Russia	7.7%
India	7.7%
Brazil	7.4%
South Africa	7.3%
Thailand	3.7%
Indonesia	3.4%
U.K.	3.1%

Brilliance China's reduced stake and the potential impact on earnings. The stock has since corrected, and we believe the increased clarity about the joint venture agreement removes an overhang that had been weighing on the stock price since China's decision to relax foreign ownership limits earlier in the year. In our opinion, luxury vehicle sales should continue to increase due to ongoing and growing demand for premium brands.

Samsung Electronics is a South Korea-based consumer electronics and semiconductor manufacturer. It is one of the world's largest smartphone and memory chip producers as well as a key supplier of organic light-emitting diode displays. Shares of the export-focused company were caught in the crosshairs of mounting global trade tensions. While the company reported solid third-quarter earnings, investor sentiment was hurt by a decline in memory chip prices, an increase in inventory levels and a slowdown in smartphone demand.

Naspers is an internet and media group based in South Africa. It is a leading provider of pay-television services in sub-Saharan Africa. It also has sizable investments in some of the world's leading technology companies, including China-based Tencent Holdings and Russia-based Mail.ru Group. Shares of Tencent retreated due to regulatory uncertainty in China's online gaming industry, which impacted Naspers's share price. Naspers' plan to spin off its pay-television business lent some support to the stock. Information technology (IT) stocks in general corrected during the period as pessimism about future global growth, the U.S.-China trade conflict, rising U.S. interest rates and a strengthening U.S. dollar led investors to switch to more

2. Not a Fund holding.



defensive stocks.<sup>3</sup> Improving market sentiment late in the year, however, led shares to recover from their year-low.

In contrast, key contributors to absolute performance during the reporting period were Fila Korea, LUKOIL and Banco Bradesco.

Fila Korea is one of South Korea's leading sportswear companies. It also licenses the Fila brand around the world and owns a stake in U.S. golf product manufacturer Acushnet.<sup>2</sup> Shares of Fila Korea advanced as the company's efforts to revitalize its domestic business and expand in China helped improve quarterly earnings. The company also reported significantly better-than-expected second- and third-quarter earnings growth, driven by strong sales growth globally and improved sales in high-margin products. Steady financial results from Acushnet also buoyed the stock.

LUKOIL is a Russian energy company involved primarily in the exploration, production, marketing and refining of oil and oil-related products. The company holds some of the largest oil reserves in the world. Rebounding oil prices benefited company shares, significantly boosting sales and earnings in the second and third quarters. LUKOIL also started a large share buyback program and approved the cancellation of a portion of its treasury shares, with both moves aimed at improving shareholder value and corporate governance. A decline in oil prices late in the period, however, led the company's share price to finish 2018 below its year-high.

Banco Bradesco is one of Brazil's largest financial conglomerates. It operates across a wide-range of segments, including asset management, insurance, wholesale banking, full retail operations, credit card and general corporate and personal lending. Banco Bradesco announced strong quarterly results during the period, benefitting from positive loan growth trends and declining non-performing loan ratios. Improved sentiment in the Brazilian market in general, driven by the victory of a more market-friendly candidate in the presidential elections and improved economic growth, further lifted investor confidence in the stock.

During the past 12 months, we increased the Fund's holdings in Mexico, Brazil and Peru due to their solid fundamentals. In terms of sectors, additions were undertaken in financials.<sup>4</sup> Key purchases included a new position China Construction Bank,

## Top 10 Holdings

12/31/18

<b>Company Sector/Industry, Country</b>	<b>% of Total Net Assets</b>
Samsung Electronics Co. Ltd. <i>Technology Hardware, Storage &amp; Peripherals, South Korea</i>	7.1%
Taiwan Semiconductor Manufacturing Co. Ltd. <i>Semiconductors &amp; Semiconductor Equipment, Taiwan</i>	6.9%
Naspers Ltd. <i>Media, South Africa</i>	6.5%
Alibaba Group Holding Ltd. <i>Internet &amp; Direct Marketing Retail, China</i>	4.1%
ICICI Bank Ltd. <i>Banks, India</i>	3.3%
Unilever PLC <i>Personal Products, U.K.</i>	3.1%
Tencent Holdings Ltd. <i>Interactive Media &amp; Services, China</i>	3.0%
Brilliance China Automotive Holdings Ltd. <i>Automobiles, China</i>	2.9%
Itau Unibanco Holding SA <i>Banks, Brazil</i>	2.5%
Banco Bradesco SA <i>Banks, Brazil</i>	2.4%

one of the largest commercial banks in China, and additional holdings in Naver, a dominant Korean internet search portal, and Grupo Financiero Santander Mexico, a major financial services company in Mexico.

Meanwhile, we reduced the Fund's holdings in South Korea, Hong Kong and Taiwan in favor of stocks we considered more attractively valued within our investment universe. Sectors which experienced the largest sales were consumer discretionary, IT and consumer staples.<sup>5</sup> Key sales included liquidating our holdings in Daelim Industrial, a South Korean construction company, and Anheuser-Busch InBev, a global alcoholic and non-alcoholic beverages company, while we reduced our holdings in MGM China Holdings, a Hong Kong-listed gaming and entertainment company.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative

3. The IT sector comprises electronic equipment, instruments and components; IT services; semiconductors and semiconductor equipment; software; and technology hardware, storage and peripherals in the SOI.

4. The financials sector comprises banks, capital markets, diversified financial services and insurance in the SOI.

5. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; internet and direct marketing retail; and textiles, apparel and luxury goods in the SOI. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products in the SOI.

effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the 12 months ended December 31, 2018, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

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

# Class 2 Fund Expenses

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

## Actual Fund Expenses

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

## Hypothetical Example for Comparison with Other Mutual Funds

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

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

Share Class	Beginning Account Value 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 <sup>1,2</sup>	
Class 2	\$1,000	\$913.40	\$6.85	\$1,018.05	\$7.22	1.42%

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

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

## Financial Highlights

### Templeton Developing Markets VIP Fund

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 1</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$10.31	\$ 7.42	\$ 6.37	\$ 9.27	\$10.26
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.09	0.08	0.05	0.06	0.15 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(1.67)	2.92	1.08	(1.63)	(0.97)
Total from investment operations . . . . .	(1.58)	3.00	1.13	(1.57)	(0.82)
Less distributions from:					
Net investment income . . . . .	(0.11)	(0.11)	(0.08)	(0.20)	(0.17)
Net realized gains . . . . .	—	—	—	(1.13)	—
Total distributions . . . . .	(0.11)	(0.11)	(0.08)	(1.33)	(0.17)
Redemption fees . . . . .	—	—	—	—	— <sup>d</sup>
Net asset value, end of year. . . . .	\$ 8.62	\$10.31	\$ 7.42	\$ 6.37	\$ 9.27
Total return <sup>e</sup> . . . . .	(15.44)%	40.65%	17.79%	(19.42)%	(8.09)%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	1.24%	1.36%	1.38%	1.33%	1.36%
Expenses net of waiver and payments by affiliates . . . . .	1.24% <sup>f</sup>	1.35% <sup>g</sup>	1.36%	1.32%	1.36% <sup>f</sup>
Net investment income . . . . .	0.99%	0.86%	0.79%	0.74%	1.51% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$85,397	\$105,493	\$82,596	\$77,000	\$114,487
Portfolio turnover rate . . . . .	9.22%	10.76%	26.78%	71.69%	82.87%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.04 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.11%.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

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

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

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

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL HIGHLIGHTS

**Templeton Developing Markets VIP Fund** (continued)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 2</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$10.23	\$ 7.36	\$ 6.32	\$ 9.20	\$10.19
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.07	0.05	0.04	0.04	0.12 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(1.68)	2.91	1.06	(1.61)	(0.96)
Total from investment operations . . . . .	(1.61)	2.96	1.10	(1.57)	(0.84)
Less distributions from:					
Net investment income . . . . .	(0.08)	(0.09)	(0.06)	(0.18)	(0.15)
Net realized gains . . . . .	—	—	—	(1.13)	—
Total distributions . . . . .	(0.08)	(0.09)	(0.06)	(1.31)	(0.15)
Redemption fees . . . . .	—	—	—	—	— <sup>d</sup>
Net asset value, end of year. . . . .	\$ 8.54	\$10.23	\$ 7.36	\$ 6.32	\$ 9.20
 Total return <sup>e</sup> . . . . .	 (15.79)%	 40.41%	 17.44%	 (19.60)%	 (8.39)%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	1.49%	1.61%	1.63%	1.58%	1.61%
Expenses net of waiver and payments by affiliates . . . . .	1.49% <sup>f</sup>	1.60% <sup>g</sup>	1.61%	1.57%	1.61% <sup>f</sup>
Net investment income . . . . .	0.74%	0.61%	0.54%	0.49%	1.26% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year ('000's) . . . . .	\$195,305	\$270,433	\$205,151	\$192,120	\$250,813
Portfolio turnover rate . . . . .	9.22%	10.76%	26.78%	71.69%	82.87%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.04 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.86%.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

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

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

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

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL HIGHLIGHTS

**Templeton Developing Markets VIP Fund** (continued)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Class 4</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$10.28	\$ 7.39	\$ 6.34	\$ 9.22	\$10.20
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.06	0.05	0.03	0.03	0.12 <sup>c</sup>
Net realized and unrealized gains (losses) . . . . .	(1.68)	2.92	1.06	(1.62)	(0.97)
Total from investment operations . . . . .	(1.62)	2.97	1.09	(1.59)	(0.85)
Less distributions from:					
Net investment income . . . . .	(0.07)	(0.08)	(0.04)	(0.16)	(0.13)
Net realized gains . . . . .	—	—	—	(1.13)	—
Total distributions . . . . .	(0.07)	(0.08)	(0.04)	(1.29)	(0.13)
Redemption fees . . . . .	—	—	—	—	— <sup>d</sup>
Net asset value, end of year. . . . .	\$ 8.59	\$10.28	\$ 7.39	\$ 6.34	\$ 9.22
 Total return <sup>e</sup> . . . . .	 (15.81)%	 40.30%	 17.32%	 (19.70)%	 (8.48)%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	1.59%	1.71%	1.73%	1.68%	1.71%
Expenses net of waiver and payments by affiliates . . . . .	1.59% <sup>f</sup>	1.70% <sup>g</sup>	1.71%	1.67%	1.71% <sup>f</sup>
Net investment income . . . . .	0.64%	0.51%	0.44%	0.39%	1.16% <sup>c</sup>
<b>Supplemental data</b>					
Net assets, end of year ('000's) . . . . .	\$5,203	\$7,199	\$6,377	\$7,109	\$11,106
Portfolio turnover rate . . . . .	9.22%	10.76%	26.78%	71.69%	82.87%

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

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

<sup>c</sup>Net investment income per share includes approximately \$0.04 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.76%.

<sup>d</sup>Amount rounds to less than \$0.01 per share.

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

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

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

# Statement of Investments, December 31, 2018

## Templeton Developing Markets VIP Fund

	Industry	Shares	Value
<b>Common Stocks 93.4%</b>			
<b>Brazil 2.5%</b>			
<sup>a</sup> B2W Cia Digital . . . . .	Internet & Direct Marketing Retail	115,300	\$ 1,248,285
B3 SA - Brasil Bolsa Balcao . . . . .	Capital Markets	307,500	2,124,077
M. Dias Branco SA . . . . .	Food Products	136,200	1,501,928
Mahle-Metal Leve SA . . . . .	Auto Components	136,600	884,095
Totvs SA . . . . .	Software	212,000	1,482,976
			<u>7,241,361</u>
<b>Cambodia 1.5%</b>			
NagaCorp Ltd. . . . .	Hotels, Restaurants & Leisure	3,946,000	<u>4,243,065</u>
<b>China 20.6%</b>			
<sup>a</sup> Alibaba Group Holding Ltd., ADR . . . . .	Internet & Direct Marketing Retail	85,886	11,772,394
BAIC Motor Corp. Ltd., H . . . . .	Automobiles	1,686,100	889,291
<sup>a</sup> Baidu Inc., ADR . . . . .	Interactive Media & Services	9,411	1,492,585
Brilliance China Automotive Holdings Ltd. . . . .	Automobiles	11,171,100	8,317,159
China Construction Bank Corp., H . . . . .	Banks	6,631,000	5,470,437
China Mobile Ltd. . . . .	Wireless Telecommunication Services	480,500	4,623,673
China Petroleum & Chemical Corp., H . . . . .	Oil, Gas & Consumable Fuels	3,829,900	2,734,071
China Resources Cement Holdings Ltd. . . . .	Construction Materials	364,700	328,349
CNOOC Ltd. . . . .	Oil, Gas & Consumable Fuels	2,000,500	3,091,252
COSCO Shipping Ports Ltd. . . . .	Transportation Infrastructure	847,238	833,118
Dah Chong Hong Holdings Ltd. . . . .	Distributors	1,746,100	604,295
NetEase Inc., ADR . . . . .	Entertainment	6,922	1,629,231
Ping An Bank Co. Ltd., A . . . . .	Banks	2,337,800	3,187,986
Ping An Insurance Group Co. of China Ltd., A . . . . .	Insurance	313,472	2,556,630
Poly Culture Group Corp. Ltd., H . . . . .	Entertainment	229,200	299,141
Tencent Holdings Ltd. . . . .	Interactive Media & Services	213,900	8,577,307
<sup>a</sup> Tencent Music Entertainment Group, ADR . . . . .	Entertainment	54	714
Uni-President China Holdings Ltd. . . . .	Food Products	2,099,700	1,823,378
Weifu High-Technology Co. Ltd., B. . . . .	Auto Components	334,339	578,118
			<u>58,809,129</u>
<b>Czech Republic 0.4%</b>			
Moneta Money Bank AS. . . . .	Banks	390,403	<u>1,260,598</u>
<b>Hong Kong 0.7%</b>			
Dairy Farm International Holdings Ltd. . . . .	Food & Staples Retailing	116,333	1,052,814
MGM China Holdings Ltd. . . . .	Hotels, Restaurants & Leisure	603,200	1,012,202
			<u>2,065,016</u>
<b>Hungary 1.1%</b>			
Richter Gedeon Nyrt . . . . .	Pharmaceuticals	161,270	<u>3,125,365</u>
<b>India 7.7%</b>			
Bajaj Holdings & Investment Ltd. . . . .	Diversified Financial Services	35,390	1,500,654
Bharat Petroleum Corp. Ltd. . . . .	Oil, Gas & Consumable Fuels	63,000	328,493
Biocon Ltd. . . . .	Biotechnology	314,552	2,844,170
Coal India Ltd. . . . .	Oil, Gas & Consumable Fuels	245,918	851,010
Glenmark Pharmaceuticals Ltd. . . . .	Pharmaceuticals	292,323	2,912,095
ICICI Bank Ltd. . . . .	Banks	1,806,409	9,351,419
Infosys Ltd. . . . .	IT Services	238,536	2,259,355
Tata Chemicals Ltd. . . . .	Chemicals	131,000	1,330,713
<sup>a</sup> Tata Motors Ltd., A . . . . .	Automobiles	401,271	534,393
			<u>21,912,302</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Templeton Developing Markets VIP Fund (continued)**

	Industry	Shares	Value
<b>Common Stocks (continued)</b>			
<b>Indonesia 3.4%</b>			
Astra International Tbk PT . . . . .	Automobiles	8,085,700	\$ 4,624,818
Bank Danamon Indonesia Tbk PT . . . . .	Banks	5,707,000	3,016,217
Semen Indonesia (Persero) Tbk PT . . . . .	Construction Materials	2,764,700	2,210,991
			<u>9,852,026</u>
<b>Kenya 0.3%</b>			
Equity Group Holdings PLC . . . . .	Banks	2,127,994	<u>725,690</u>
<b>Macau 0.7%</b>			
Sands China Ltd. . . . .	Hotels, Restaurants & Leisure	469,600	<u>2,056,992</u>
<b>Mexico 2.2%</b>			
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santander, ADR . . . . .	Banks	869,761	5,357,728
Nemak SAB de CV . . . . .	Auto Components	1,403,100	1,048,192
			<u>6,405,920</u>
<b>Nigeria 0.0%†</b>			
Nigerian Breweries PLC . . . . .	Beverages	170,327	<u>40,509</u>
<b>Pakistan 0.4%</b>			
Habib Bank Ltd. . . . .	Banks	1,460,000	<u>1,232,332</u>
<b>Peru 1.9%</b>			
Compania de Minas Buenaventura SA, ADR . . . . .	Metals & Mining	261,500	4,241,530
<sup>b</sup> InterCorp Financial Services Inc., Reg S . . . . .	Banks	31,950	1,341,900
			<u>5,583,430</u>
<b>Philippines 0.3%</b>			
BDO Unibank Inc. . . . .	Banks	327,469	<u>815,866</u>
<b>Russia 7.7%</b>			
Gazprom PJSC, ADR . . . . .	Oil, Gas & Consumable Fuels	666,900	2,953,700
LUKOIL PJSC, ADR . . . . .	Oil, Gas & Consumable Fuels	95,250	6,808,470
<sup>a,b</sup> Mail.Ru Group Ltd., GDR, Reg S . . . . .	Interactive Media & Services	112,799	2,646,265
MMC Norilsk Nickel PJSC, ADR . . . . .	Metals & Mining	37,800	709,128
Sberbank of Russia PJSC, ADR . . . . .	Banks	469,778	5,148,767
<sup>a</sup> Yandex NV, A . . . . .	Interactive Media & Services	136,818	3,741,972
			<u>22,008,302</u>
<b>Singapore 0.2%</b>			
DBS Group Holdings Ltd. . . . .	Banks	25,706	<u>446,774</u>
<b>South Africa 7.3%</b>			
Massmart Holdings Ltd. . . . .	Food & Staples Retailing	293,714	2,116,136
Naspers Ltd., N . . . . .	Media	92,697	18,659,462
			<u>20,775,598</u>
<b>South Korea 16.3%</b>			
Fila Korea Ltd. . . . .	Textiles, Apparel & Luxury Goods	81,720	3,925,636
Hankook Tire Co. Ltd. . . . .	Auto Components	21,600	778,695
Hankook Tire Worldwide Co. Ltd. . . . .	Diversified Financial Services	37,500	558,943
Hanon Systems. . . . .	Auto Components	94,741	918,734
<sup>a</sup> HDC Hyundai Development Co-Engineering & Construction . . . . .	Construction & Engineering	56,247	2,434,301
Hite Jinro Co. Ltd. . . . .	Beverages	64,320	958,698
Interpark Holdings Corp. . . . .	Internet & Direct Marketing Retail	142,053	299,741
KT Skylife Co. Ltd. . . . .	Media	166,071	1,714,824
LG Corp. . . . .	Industrial Conglomerates	62,473	3,921,005
Naver Corp. . . . .	Interactive Media & Services	50,610	5,544,010



FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Templeton Developing Markets VIP Fund** (continued)

	Industry	Shares	Value
<b>Common Stocks</b> (continued)			
<b>South Korea</b> (continued)			
POSCO . . . . .	Metals & Mining	13,592	\$ 2,965,634
Samsung Electronics Co. Ltd. . . . .	Technology Hardware, Storage & Peripherals	588,200	20,439,199
SK Hynix Inc. . . . .	Semiconductors & Semiconductor Equipment	37,980	2,063,185
			<u>46,522,605</u>
<b>Taiwan 10.2%</b>			
Catcher Technology Co. Ltd. . . . .	Technology Hardware, Storage & Peripherals	341,000	2,507,599
CTBC Financial Holding Co. Ltd. . . . .	Banks	2,244,000	1,481,479
FIT Hon Teng Ltd. . . . .	Electronic Equipment, Instruments & Components	1,759,800	761,857
Hon Hai Precision Industry Co. Ltd. . . . .	Electronic Equipment, Instruments & Components	1,169,200	2,705,473
Largan Precision Co. Ltd. . . . .	Electronic Equipment, Instruments & Components	11,900	1,250,400
Pegatron Corp. . . . .	Technology Hardware, Storage & Peripherals	444,800	747,221
Taiwan Semiconductor Manufacturing Co. Ltd. . . . .	Semiconductors & Semiconductor Equipment	2,658,000	19,589,469
			<u>29,043,498</u>
<b>Thailand 3.7%</b>			
Kasikornbank PCL, fgn. . . . .	Banks	619,500	3,534,253
Kiatnakin Bank PCL, fgn. . . . .	Banks	1,009,800	2,068,622
Land and Houses PCL, fgn. . . . .	Real Estate Management & Development	3,605,200	1,103,633
PTT Exploration and Production PCL, fgn. . . . .	Oil, Gas & Consumable Fuels	102,300	359,031
Siam Commercial Bank PCL, fgn. . . . .	Banks	306,400	1,264,824
Thai Beverage PCL, fgn. . . . .	Beverages	4,816,500	2,155,508
			<u>10,485,871</u>
<b>United Kingdom 3.1%</b>			
Unilever PLC. . . . .	Personal Products	167,932	8,798,569
<b>United States 1.2%</b>			
Cognizant Technology Solutions Corp., A . . . . .	IT Services	18,688	1,186,314
<sup>a</sup> IMAX Corp. . . . .	Entertainment	125,255	2,356,047
			<u>3,542,361</u>
<b>Total Common Stocks (Cost \$221,437,922)</b> . . . .			<u>266,993,179</u>
<b>Preferred Stocks 4.9%</b>			
<b>Brazil 4.9%</b>			
<sup>c</sup> Banco Bradesco SA, 3.078%, ADR, pfd. . . . .	Banks	690,596	6,829,994
<sup>c</sup> Itau Unibanco Holding SA, 10.117%, ADR, pfd. . . . .	Banks	776,943	7,101,259
<b>Total Preferred Stocks (Cost \$5,860,345)</b> . . . .			<u>13,931,253</u>
<b>Total Investments before Short Term</b>			
<b>Investments (Cost \$227,298,267)</b> . . . . .			<u>280,924,432</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Templeton Developing Markets VIP Fund** (continued)

	Shares	Value
<b>Short Term Investments (Cost \$5,427,431) 1.9%</b>		
<b>Money Market Funds 1.9%</b>		
<b>United States 1.9%</b>		
<sup>d,e</sup> Institutional Fiduciary Trust Money Market Portfolio, 1.99% . . .	5,427,431	\$ 5,427,431
<b>Total Investments (Cost \$232,725,698)</b>		
<b>100.2%</b> . . . . .		286,351,863
<b>Other Assets, less Liabilities (0.2%)</b> . . . . .		(446,909)
<b>Net Assets 100.0%</b> . . . . .		<u>\$285,904,954</u>

See Abbreviations on page TD-24.

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

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

<sup>b</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the aggregate value of these securities was \$3,988,165, representing 1.3% of net assets.

<sup>c</sup>Variable rate security. The rate shown represents the yield at period end.

<sup>d</sup>See Note 3(e) regarding investments in affiliated management investment companies.

<sup>e</sup>The rate shown is the annualized seven-day effective yield at period end.

## Financial Statements

### Statement of Assets and Liabilities

December 31, 2018

	Templeton Developing Markets VIP Fund
<b>Assets:</b>	
Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$227,298,267
Cost - Non-controlled affiliates (Note 3e) . . . . .	5,427,431
Value - Unaffiliated issuers . . . . .	\$280,924,432
Value - Non-controlled affiliates (Note 3e) . . . . .	5,427,431
Foreign currency, at value (cost \$2,016) . . . . .	2,017
Receivables:	
Investment securities sold . . . . .	200,224
Capital shares sold . . . . .	55,482
Dividends . . . . .	949,750
Foreign tax refund . . . . .	22,046
Other assets . . . . .	45
<b>Total assets . . . . .</b>	<b>287,581,427</b>
<b>Liabilities:</b>	
Payables:	
Investment securities purchased . . . . .	347,793
Capital shares redeemed . . . . .	248,926
Management fees . . . . .	255,764
Distribution fees . . . . .	86,361
Reports to shareholders . . . . .	85,301
Deferred tax . . . . .	560,483
Accrued expenses and other liabilities . . . . .	91,845
<b>Total liabilities . . . . .</b>	<b>1,676,473</b>
<b>Net assets, at value . . . . .</b>	<b>\$285,904,954</b>
Net assets consist of:	
Paid-in capital . . . . .	\$239,929,675
Total distributable earnings (loss) . . . . .	45,975,279
<b>Net assets, at value . . . . .</b>	<b>\$285,904,954</b>
<b>Class 1:</b>	
Net assets, at value . . . . .	\$ 85,397,349
Shares outstanding . . . . .	9,911,310
Net asset value and maximum offering price per share . . . . .	\$8.62
<b>Class 2:</b>	
Net assets, at value . . . . .	\$195,304,629
Shares outstanding . . . . .	22,858,604
Net asset value and maximum offering price per share . . . . .	\$8.54
<b>Class 4:</b>	
Net assets, at value . . . . .	\$ 5,202,976
Shares outstanding . . . . .	605,836
Net asset value and maximum offering price per share . . . . .	\$8.59

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL STATEMENTS

**Statement of Operations**

for the year ended December 31, 2018

	<b>Templeton Developing Markets VIP Fund</b>
Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers . . . . .	\$ 7,351,409
Non-controlled affiliates (Note 3e) . . . . .	80,201
Total investment income. . . . .	<u>7,431,610</u>
Expenses:	
Management fees (Note 3a) . . . . .	3,750,153
Distribution fees: (Note 3c)	
Class 2 . . . . .	581,458
Class 4 . . . . .	21,971
Custodian fees (Note 4) . . . . .	110,634
Reports to shareholders . . . . .	159,309
Professional fees . . . . .	85,051
Trustees' fees and expenses . . . . .	2,514
Other. . . . .	<u>39,824</u>
Total expenses . . . . .	4,750,914
Expenses waived/paid by affiliates (Note 3e) . . . . .	<u>(16,974)</u>
Net expenses . . . . .	<u>4,733,940</u>
Net investment income . . . . .	<u>2,697,670</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers . . . . .	19,775,701
Foreign currency transactions . . . . .	<u>(81,443)</u>
Net realized gain (loss). . . . .	<u>19,694,258</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers . . . . .	(77,229,739)
Translation of other assets and liabilities	
denominated in foreign currencies . . . . .	(8,915)
Change in deferred taxes on unrealized appreciation. . . . .	<u>101,555</u>
Net change in unrealized appreciation (depreciation) . . . . .	<u>(77,137,099)</u>
Net realized and unrealized gain (loss) . . . . .	<u>(57,442,841)</u>
Net increase (decrease) in net assets resulting from operations . . . . .	<u>\$ (54,745,171)</u>

\*Foreign taxes withheld on dividends. . . . . \$ 1,097,281

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL STATEMENTS

**Statements of Changes in Net Assets**

	<b>Templeton Developing Markets VIP Fund</b>	
	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 2,697,670	\$ 2,374,437
Net realized gain (loss) . . . . .	19,694,258	15,871,903
Net change in unrealized appreciation (depreciation) . . . . .	(77,137,099)	97,762,101
Net increase (decrease) in net assets resulting from operations. . . . .	(54,745,171)	116,008,441
Distributions to shareholders: (Note 1d)		
Class 1 . . . . .	(1,013,838)	(1,158,124)
Class 2 . . . . .	(1,947,210)	(2,409,152)
Class 4 . . . . .	(46,243)	(56,318)
Total distributions to shareholders . . . . .	(3,007,291)	(3,623,594)
Capital share transactions: (Note 2)		
Class 1 . . . . .	(3,414,259)	(8,439,257)
Class 2 . . . . .	(35,130,020)	(13,542,309)
Class 4 . . . . .	(923,409)	(1,401,998)
Total capital share transactions . . . . .	(39,467,688)	(23,383,564)
Net increase (decrease) in net assets. . . . .	(97,220,150)	89,001,283
Net assets:		
Beginning of year . . . . .	383,125,104	294,123,821
End of year (Note 1d) . . . . .	\$285,904,954	\$383,125,104

## Notes to Financial Statements

### Templeton Developing Markets VIP Fund

#### 1. Organization and Significant Accounting Policies

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

The following summarizes the Fund's significant accounting policies.

##### a. Financial Instrument Valuation

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

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

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

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

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

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

**Templeton Developing Markets VIP Fund** (continued)

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

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

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

**b. Foreign Currency Translation**

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

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

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

**c. Income and Deferred Taxes**

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

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

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

**d. 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. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications

## Templeton Developing Markets VIP Fund (continued)

have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.\*

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

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

### e. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### f. Guarantees and Indemnifications

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

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

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

Distributions from net investment income :

Class 1. . . . .	\$(1,158,124)
Class 2. . . . .	(2,409,152)
Class 4. . . . .	(56,318)

For the year ended December 31, 2017, undistributed net investment income included in net assets was \$1,595,154.

## 2. Shares of Beneficial Interest

At December 31, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
<b>Class 1 Shares:</b>				
Shares sold . . . . .	1,801,012	\$ 17,302,432	1,136,991	\$ 10,043,847
Shares issued in reinvestment of distributions . . . . .	105,170	1,013,838	132,055	1,158,124
Shares redeemed . . . . .	(2,222,370)	(21,730,529)	(2,176,842)	(19,641,228)
Net increase (decrease). . . . .	(316,188)	\$ (3,414,259)	(907,796)	\$ (8,439,257)



## Templeton Developing Markets VIP Fund (continued)

### 2. Shares of Beneficial Interest (continued)

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
<b>Class 2 Shares:</b>				
Shares sold . . . . .	4,771,227	\$ 45,978,347	6,636,331	\$ 58,458,562
Shares issued in reinvestment of distributions . . . . .	203,470	1,947,210	276,596	2,409,152
Shares redeemed . . . . .	(8,557,714)	(83,055,577)	(8,351,598)	(74,410,023)
Net increase (decrease) . . . . .	(3,583,017)	\$(35,130,020)	(1,438,671)	\$(13,542,309)
<b>Class 4 Shares:</b>				
Shares sold . . . . .	48,260	\$ 471,887	85,028	\$ 793,112
Shares issued in reinvestment of distributions . . . . .	4,802	46,243	6,437	56,318
Shares redeemed . . . . .	(147,608)	(1,441,539)	(253,881)	(2,251,428)
Net increase (decrease) . . . . .	(94,546)	\$ (923,409)	(162,416)	\$ (1,401,998)

### 3. Transactions with Affiliates

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

Subsidiary	Affiliation
Templeton Asset Management Ltd. (Asset Management)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

#### a. Management Fees

Effective May 1, 2018, the Fund pays an investment management fee to Asset Management based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.050%	Up to and including \$1 billion
1.000%	Over \$1 billion, up to and including \$5 billion
0.950%	Over \$5 billion, up to and including \$10 billion
0.900%	Over \$10 billion, up to and including \$15 billion
0.850%	Over \$15 billion, up to and including \$20 billion
0.800%	In excess of \$20 billion

### Templeton Developing Markets VIP Fund (continued)

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

Annualized Fee Rate	Net Assets
1.250%	Up to and including \$200 million
1.235%	Over \$200 million, up to and including \$700 million
1.200%	Over \$700 million, up to and including \$1 billion
1.150%	Over \$1 billion, up to and including \$1.2 billion
1.125%	Over \$1.2 billion, up to and including \$5 billion
1.075%	Over \$5 billion, up to and including \$10 billion
1.025%	Over \$10 billion, up to and including \$15 billion
0.975%	Over \$15 billion, up to and including \$20 billion
0.925%	In excess of \$20 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 1.124% of the Fund's average daily net assets.

#### b. Administrative Fees

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

#### c. Distribution Fees

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

#### d. Transfer Agent Fees

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

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

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 1.99% . . . . .	1,128,203	57,320,008	(53,020,780)	5,427,431	\$5,427,431	\$80,201	\$ —	\$ —

## Templeton Developing Markets VIP Fund (continued)

### 4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2018, there were no credits earned.

### 5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains.

At December 31, 2018, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:

Short Term . . . . . \$6,657,029

During the year ended December 31, 2018, the Fund utilized \$18,533,257 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Distributions paid from ordinary income . . . . .	\$3,007,291	\$3,623,594

At December 31, 2018, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments . . . . .	\$236,429,778
Unrealized appreciation . . . . .	\$ 74,390,657
Unrealized depreciation . . . . .	(24,468,572)
Net unrealized appreciation (depreciation) . . . . .	\$ 49,922,085
Distributable earnings:	
Undistributed ordinary income . . . . .	\$ 3,293,793

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatment of corporate actions.

### 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2018, aggregated \$30,489,465 and \$74,482,051, respectively.

### 7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in securities in Europe. In addition, certain foreign securities may not be as liquid as U.S. securities.

The United States and other nations have imposed and could impose additional sanctions on certain issuers in Russia due to regional conflicts. These sanctions could result in the devaluation of Russia's currency, a downgrade in Russian issuers' credit ratings, or a decline in the value and liquidity of Russian stocks or other securities. Such sanctions could also adversely affect Russia's economy,

### Templeton Developing Markets VIP Fund (continued)

possibly forcing the economy into a recession. The Fund may be prohibited from investing in securities issued by companies subject to such sanctions. In addition, if the Fund holds the securities of an issuer that is subject to such sanctions, an immediate freeze of that issuer's securities could result, impairing the ability of the Fund to buy, sell, receive or deliver those securities. There is also the risk that countermeasures could be taken by Russia's government, which could involve the seizure of the Fund's assets. These risks could affect the value of the Fund's portfolio. While the Fund holds securities of certain issuers impacted by the sanctions, existing investments do not presently violate the applicable terms and conditions of the sanctions. The sanctions currently do not affect the Fund's ability to sell these securities. At December 31, 2018, the Fund had 7.7% of its net assets invested in Russia.

## 8. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matured on February 8, 2019. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, for a total of \$2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2018, the Fund did not use the Global Credit Facility.

## 9. Fair Value Measurements

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

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

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

At December 31, 2018, all of the Fund's investments in financial instruments carried at fair value were valued using Level 1 inputs. For detailed categories, see the accompanying Statement of Investments.

## 10. Subsequent Events

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

**Templeton Developing Markets VIP Fund** (continued)

**Abbreviations**

**Selected Portfolio**

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**ADR** American Depositary Receipt

**GDR** Global Depositary Receipt

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Templeton Variable Insurance Products Trust and Shareholders of Templeton Developing Markets VIP Fund

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

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Templeton Developing Markets VIP Fund (the "Fund") as of December 31, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California  
February 15, 2019

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

## **Tax Information (unaudited)**

### **Templeton Developing Markets VIP Fund**

At December 31, 2018, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. The Fund elects to treat foreign taxes paid as allowed under Section 853 of the Internal Revenue Code. This election will allow shareholders of record as of the 2019 distribution date, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

# Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges.

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

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

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

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

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

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

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

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

**Lipper Multi-Sector Income Funds Classification Average** is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds Classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocation of assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/18, there were 320 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/18, there were 81 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/18, there were 56 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

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

**MSCI All Country World Index (ACWI) ex USA Index** captures large- and mid-capitalization representation across 22 of 23 developed markets countries (excluding the U.S.) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.



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

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

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

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

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

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

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

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

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

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

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

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

## Board Members and Officers

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

### Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Harris J. Ashton (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	136	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; and <b>formerly</b> , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
<b>Terrence J. Checki (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2017	112	Hess Corporation (exploration of oil and gas) (2014-present).
<b>Principal Occupation During at Least the Past 5 Years:</b> Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and <b>formerly</b> , Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).				
<b>Mary C. Choksi (1950)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present)
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; and <b>formerly</b> , Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).				
<b>Edith E. Holiday (1952)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	136	Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director or Trustee of various companies and trusts; and <b>formerly</b> , Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison—United States Treasury Department (1988-1989).				
<b>J. Michael Luttig (1954)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	136	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				

## Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Larry D. Thompson (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	136	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

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

Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015; previously 2011-2012); and **formerly**, Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

<b>John B. Wilson (1959)</b> One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2007 and Lead Independent Trustee since 2008	112	None
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### Principal Occupation During at Least the Past 5 Years:

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

## Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	150	None
<b>Principal Occupation During at Least the Past 5 Years:</b> Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and <b>formerly</b> , President, Franklin Resources, Inc. (1994-2015).				
<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, and Trustee	Chairman of the Board since 2013, and Trustee since 1988	136	None

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

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 40 of the investment companies in Franklin Templeton Investments.

<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
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### Principal Occupation During at Least the Past 5 Years:

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

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

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

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

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

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

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

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

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

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

# Shareholder Information

## Board Approval of Investment Management Agreements

### FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

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

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

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

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

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

#### Nature, Extent and Quality of Services

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

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



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

### **Fund Performance**

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

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

### **Comparative Fees and Expenses**

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

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

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

### **Profitability**

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

### **Economies of Scale**

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

### **Conclusion**

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

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

## **Proxy Voting Policies and Procedures**

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

## **Quarterly Statement of Investments**

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





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

**Investment Managers**

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

**Fund Administrator**

Franklin Templeton Services, LLC

**Distributor**

Franklin Templeton Distributors, Inc.

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

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

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



## ANNUAL REPORT

December 31, 2018

T. ROWE PRICE

# International Stock Portfolio

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## HIGHLIGHTS

- The International Stock Portfolio posted a loss for the 2018 calendar year. The portfolio performed in line with the MSCI All Country World Index ex USA Net, the MSCI All Country World Index ex USA, and its Lipper peer group average.
- The portfolio benefited from stock selection in the financials and information technology sectors, which was largely offset by the underperformance of our consumer staples and energy sector holdings.
- We buy and hold companies with durable franchises that we believe can generate steady earnings and cash flow growth over the long term.
- Valuations across the portfolio remain reasonable, and while we continue to look for good risk-adjusted returns, we keep a watchful eye on capital preservation. Our long-standing positive view on the prospects for technology, health care, and financials has not changed.

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**It's secure**—we protect your online accounts using “True Identity” to confirm new accounts and make verification faster and more secure.

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\*Certain mutual fund accounts that are assessed an annual account service fee can also save money by switching to e-delivery.

## Dear Investor

The year 2018 was not one that investors will remember fondly. The major stock indexes recorded their worst declines in a decade, with most falling over 20% from recent peaks and bringing a technical end to the bull market that began in 2009. In direct contrast to 2017, financial assets performed poorly across asset classes and geographies. The broadest measure of domestic bond returns, the Bloomberg Barclays U.S. Aggregate Bond Index, returned exactly nothing (0.0%) for the year, and nearly all overseas bond and equity markets also performed poorly. “Cash was king,” in Wall Street parlance, which never makes for a happy reign.

Many issues were behind the market weakness, but we can point to four primary factors that weighed on sentiment:

*Rising interest rates.* Wage pressures appeared to be accelerating early in the year, sending longer-term bond yields to multiyear highs and sparking a sell-off in equities in early February. Wage gains soon moderated, but a continued decline in the unemployment rate—which reached a five-decade low of 3.7% in September—kept investors on the lookout for higher inflation ahead. In October, yields returned to their peaks on the back of good economic data and suggestions from Federal Reserve officials that they might keep hiking interest rates more quickly than expected. This was subsequently followed by a decline in long-term rates as investors sought safety late in the year and questioned the pace of future interest rate hikes.

*Trade tensions.* On March 1, President Donald Trump took markets by surprise in announcing a new series of metal tariffs. His administration quickly adopted a decidedly protectionist stance, with pro-trade advocates leaving and the announcement of plans for a range of new trade restrictions. Many threats never materialized, and the White House announced a renegotiated trade deal with Canada and Mexico. Trade tensions with China only appeared to deepen as the year progressed, however.

*Slowing global growth.* A global slowdown became apparent in the second half of 2018. Environmental and financial reforms put the brakes on the Chinese economy, as planned, but trade frictions caused growth to slow below official targets. Other emerging markets suffered from a stronger U.S. dollar and higher U.S. interest rates. In Europe, trade worries also hampered business spending, while unresolved Brexit fears and further threats to the eurozone from Italy and elsewhere also took a toll. Plummeting oil prices late in the year seemed to confirm a general weakening in global economic conditions.

*Peaking fundamentals.* The U.S. economy stood apart by accelerating in 2018, but a moderation in 2019 appears all but inevitable as the effects of fiscal stimulus moderate. Of specific concern to investors is the almost certain slowdown in

corporate profits in the coming year. Overall profits for the S&P 500 grew by 25% versus the year before in the first three quarters of 2018—a pace sure to slow as the year-over-year impact of the tax cut fades, wage gains pressure margins, and the global economy cools.

The market’s dramatic pullback in the final weeks of 2018—stocks suffered their worst December since the Great Depression—seemed to reflect fears that a recession might even be imminent. I think such concerns are overblown. The Fed has already completed most of its planned rate hikes, promising less of a headwind for the economy and markets. China and Europe are likely to respond to slowing growth with stimulus, and both will benefit from lower oil prices. As I write, some encouraging signs have also emerged on the trade front, although whether the U.S. and China can resolve their differences remains perhaps the largest uncertainty facing markets.

In terms of stock performance, the painful end to 2018 served to improve valuations, making gains in the coming year less of a hurdle. I would also note that a further stock market “bust” in 2019 seems unlikely given that we never experienced the concentrated “boom” that has preceded past bad bear markets. In the final stages of the dot-com boom of the late 1990s, for example, investors flooded in to telecom shares, and huge amounts of capital and risk flowed in to housing in the mid-2000s. Currently, I simply do not see those sorts of distortions in the financial system.

Of course, opinions about what 2019 holds vary among our investment professionals at T. Rowe Price, and we sharpen each other’s thinking by constantly sharing opinions and insights. Please rest assured that your fund’s manager is drawing on the insights and perspectives across our global organization as he or she charts the course ahead.

Thank you for your continued confidence in T. Rowe Price.

Sincerely,



Robert Sharps  
Group Chief Investment Officer

## INVESTMENT OBJECTIVE

The fund seeks long-term growth of capital through investments primarily in the common stocks of established, non-U.S. companies.

## FUND COMMENTARY

### How did the fund perform in the past 12 months?

The International Stock Portfolio returned -14.20% in the 12 months ended December 31, 2018. The portfolio performed in line with the MSCI All Country World Index ex USA Net, the MSCI All Country World Index ex USA, as well as its Lipper peer group average. Effective July 1, 2018, the MSCI All Country World Index ex USA Net replaced the MSCI All Country World Index ex USA as the fund's primary benchmark. The new index assumes the reinvestment of dividends after the deduction of withholding taxes applicable to the country where the dividend is paid; therefore, the returns of the new benchmark are more representative of the returns experienced by investors in foreign issuers. *(Past performance cannot guarantee future results.)*

### PERFORMANCE COMPARISON

Periods Ended 12/31/18	Total Return	
	6 Months	12 Months
International Stock Portfolio	-12.18%	-14.20%
MSCI All Country World Index ex USA Net	-10.84	-14.20
MSCI All Country World Index ex USA	-10.70	-13.78
Lipper Variable Annuity Underlying International Multi-Cap Growth Funds Average	-13.29	-14.22

### What factors influenced the fund's performance?

Stock selection in the consumer staples and energy sectors detracted from our relative returns. However, stock selection was a positive relative performance contributor in the financials, information technology, and industrials and business services sectors. Our overweight to the traditionally defensive consumer staples sector modestly helped relative returns, but an underweight to the extremely volatile energy sector detracted.

In the consumer staples sector, tobacco industry holdings posted losses. **British American Tobacco** was the portfolio's largest absolute and relative performance detractor. It is now the world's biggest tobacco company, following the firm's

acquisition of Reynolds American. The stock peaked in January 2018 and declined during the year, as fears of intensifying competition and regulatory uncertainty surrounding the Food and Drug Administration's possible limitations on nicotine levels in traditional combustible cigarettes weighed on investor sentiment. We added to the position as the share price fell. We believe that the company can generate earnings growth from its traditional cigarette products and its smokeless and heat-not-burn brands, even as global tobacco consumption declines. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

**Philip Morris International's** stock also underperformed due to the regulatory uncertainties that have weighed on the industry. We trimmed our stake in **Japan Tobacco**, another poor performer. Japan Tobacco declined in early 2018 after it reported that operating profits declined more than expected. It also appears to be more challenged than some of its peers in next generation product technology.

Stock selection in the financials sector provided a strong relative performance contribution. At 18.6% of the portfolio, financials was our largest sector allocation at the end of the period. Our underweight allocation also contributed to relative returns because stocks in the sector struggled during the period. Our emerging markets financial holdings generated solid performance during the year. We favor companies that are gaining market share. We yielded good results from holdings such as insurer **AIA Group**; longtime bank holdings including **First Bank of Abu Dhabi** and **Housing Development Finance**; and our recently initiated position in **Banco Bradesco**.

Within the health care sector, which held up better than the broad market, our overweight allocation contributed to relative returns. Health care equipment supplier **GN Store Nord**, biotechnology giant **Shire**, and pharmaceutical manufacturers **Chugai Pharmaceuticals** and **Astellas Pharma** were among our best absolute and relative performers.

## SECTOR DIVERSIFICATION

	Percent of Net Assets	
	6/30/18	12/31/18
Financials	18.2%	18.6%
Health Care	14.0	12.8
Information Technology	12.4	12.5
Consumer Staples	12.6	12.4
Industrials and Business Services	11.8	11.3
Communication Services	10.0	10.9
Consumer Discretionary	10.1	10.7
Materials	3.8	4.4
Energy	3.1	3.2
Utilities	1.7	1.4
Real Estate	0.6	0.6
Other and Reserves	1.7	1.2
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Historical weightings reflect current industry/sector classifications.

We generated a solid relative performance contribution from stock selection in the information technology sector. The portfolio benefited from payment processors **MasterCard** and **Wirecard** in the information technology services segment but suffered punishing losses in **NAVER**, **Renesas Electronics**, **NXP Semiconductors**, **Tencent Holdings**, and relatively new addition **Disco**. At 12.5% of assets, information technology represented our largest overweight allocation (versus 8.0% in the benchmark) at the end of the reporting period.

#### How is the fund positioned?

Overall, our regional views have not materially changed. Europe (40% of portfolio assets) offers many durable growth companies with good risk/reward opportunities. Our holdings in the Pacific ex-Japan region accounted for 28% of assets, and we continued to fund select opportunities in Japan (14%), which generated underwhelming absolute and relative performance.

Our North America holdings (10% of portfolio assets) generate most of their revenues in international markets, and, overall, the region was a positive contributor to relative performance due to stock selection. For example, we like the prospects for **Booking Holdings** (formerly Priceline) and MasterCard, as we think both possess significant runways for growth. Within emerging markets, stock selection was the top regional contributor to relative results. We have added to select opportunities in the financials and consumer discretionary sectors, but we have remained modestly underweight overall. Stock selection in Japan and developed Europe detracted.

#### What is portfolio management's outlook?

The recent market volatility and a savage correction for many high-growth companies have created good buying opportunities for contrarian growth investors. The team is constantly looking for growth stocks that we believe have been mispriced by the market on a medium-term view. We attempt to be opportunistic and buy solid, fundamentally sound companies during sharp, short-term sell-offs. In December, some of the growthier parts of the market were severely punished, even though economic fundamentals appeared to remain steady. We believe that this presented a good opportunity to lean into high-quality growth companies where we have a positive a multiyear view of their businesses.

We typically view our holdings as falling into these three buckets:

1. High growth—companies that offer the highest growth potential but typically come with high price/earnings multiples and involve above-average risk.
2. Grinders—companies that we believe can generate sustainable low- to mid-teens returns through a combination of dividends and capital appreciation and that are trading at a reasonable multiple of earnings.
3. Cyclical growers—businesses that are taking market share within their industry and can generate good returns at various points in the economic cycle.

We aim to tilt the portfolio by adding to the bucket where we see the best risk-adjusted returns and the most “mispriced” growth opportunities. During the fourth quarter, we were finding and adding to the high-growth bucket—companies that can offer good defensive characteristics, even in a weaker economic environment, because their growth is more secular and less economically sensitive.

European equity valuations have become more attractive, particularly in financials, as investors worry about the political backdrop. Certain emerging markets, including China, are also more reasonably valued as macroeconomic concerns weighed on stocks despite an attractive earnings growth outlook for many companies. The recent volatility indicates that investors are becoming more unsettled by the rhetoric coming out of Washington, Beijing, and elsewhere, and investors have become less sanguine about the possibility of an escalating trade war.

In health care, we continue to find good individual opportunities in the pharma and medical technology segments, despite difficult headlines around drug pricing in the U.S. Information technology sector valuations appear reasonable relative to our view of the growth they offer.

As always, we are focused on finding companies that we think will continue to demonstrate durable growth. We use a top-down overlay to complement our stock selection process. We believe our best insights will come at the company level rather than attempting to time the markets.

The views expressed reflect the opinions of T. Rowe Price as of the date of this report and are subject to change based on changes in market, economic, or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**RISKS OF INTERNATIONAL INVESTING**

Portfolios that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. Portfolios investing in a single country or in a limited geographic region tend to be riskier than more diversified offerings. Risks can result from varying stages of economic and political development; differing regulatory environments, trading days, and accounting standards; and higher transaction costs of non-U.S. markets. Non-U.S. investments are also subject to currency risk, or a decline in the value of a foreign currency versus the U.S. dollar, which reduces the dollar value of securities denominated in that currency.

**BENCHMARK INFORMATION**

**Note:** MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI.

**TWENTY-FIVE LARGEST HOLDINGS**

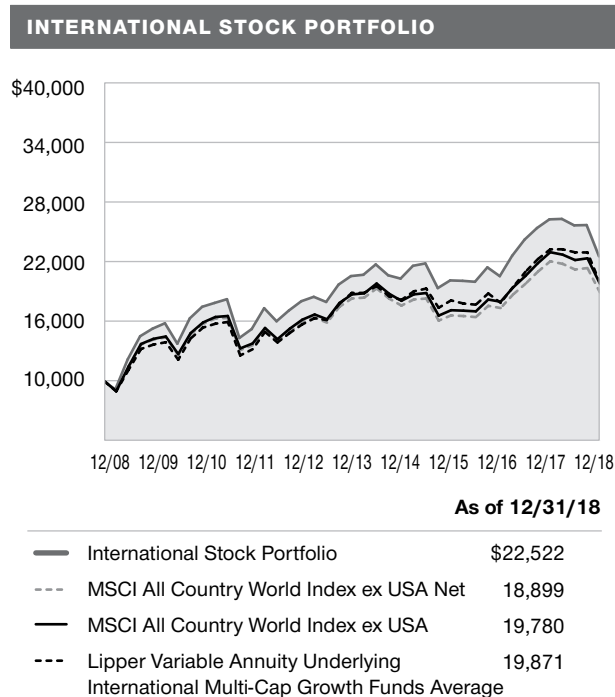
<b>Company</b>	<b>Country</b>	<b>Percent of Net Assets 12/31/18</b>
AIA Group	Hong Kong	2.3%
Naspers	South Africa	2.3
Essity	Sweden	2.2
Housing Development Finance	India	2.0
Tencent Holdings	China	1.9
Bayer	Germany	1.9
Nestle	Switzerland	1.8
Seven & i Holdings	Japan	1.8
NXP Semiconductors	Netherlands	1.8
Jardine Matheson Holdings	Hong Kong	1.8
Taiwan Semiconductor Manufacturing	Taiwan	1.8
Alibaba Group Holding	China	1.7
UBS	Switzerland	1.7
Thales	France	1.7
British American Tobacco	United Kingdom	1.5
CK Hutchison Holdings	Hong Kong	1.5
NTPC Limited	India	1.4
Nippon Telegraph & Telephone	Japan	1.4
Amcor	Australia	1.4
Bank Central Asia	Indonesia	1.3
Magna International	Canada	1.3
Samsung Electronics	South Korea	1.3
NAVER	South Korea	1.3
Smith & Nephew	United Kingdom	1.2
Amadeus IT	Spain	1.2
<b>Total</b>		<b>41.5%</b>

Note: The information shown does not reflect any exchange-traded funds (ETFs), cash reserves, or collateral for securities lending that may be held in the portfolio.



## GROWTH OF \$10,000

This chart shows the value of a hypothetical \$10,000 investment in the portfolio over the past 10 fiscal year periods or since inception (for portfolios lacking 10-year records). The result is compared with benchmarks, which include a broad-based market index and may also include a peer group average or index. Market indexes do not include expenses, which are deducted from portfolio returns as well as mutual fund averages and indexes.



## AVERAGE ANNUAL COMPOUND TOTAL RETURN

Periods Ended 12/31/18	1 Year	5 Years	10 Years
International Stock Portfolio	-14.20%	1.86%	8.46%

*The fund's performance information represents only past performance and is not necessarily an indication of future results. Current performance may be lower or higher than the performance data cited. Share price, principal value, and return will vary, and you may have a gain or loss when you sell your shares. For the most recent month-end performance, please contact a T. Rowe Price representative at 1-800-469-6587 (financial advisors, or customers who have an advisor, should call 1-800-638-8790). Total returns do not include charges imposed by your insurance company's separate account. If these had been included, performance would have been lower.*

This table shows how the portfolio would have performed each year if its actual (or cumulative) returns for the periods shown had been earned at a constant rate. Average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions. When assessing performance, investors should consider both short- and long-term returns.

## FUND EXPENSE EXAMPLE

As a mutual fund shareholder, you may incur two types of costs: (1) transaction costs, such as redemption fees or sales loads, and (2) ongoing costs, including management fees, distribution and service (12b-1) fees, and other fund expenses. The following example is intended to help you understand your ongoing costs (in dollars) of investing in the fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the most recent six-month period and held for the entire period.

### Actual Expenses

The first line of the following table (Actual) provides information about actual account values and actual expenses. You may use the information on this line, together with your account balance, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number on the first line under the heading "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The information on the second line of the table (Hypothetical) is based on hypothetical account values and expenses derived from the fund's actual expense ratio and an assumed 5% per year rate of return before expenses (not the fund's actual return). You may compare the ongoing costs of investing in the fund with other funds by contrasting this 5% hypothetical example and the 5% hypothetical examples that appear in the shareholder reports of the other funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

You should also be aware that the expenses shown in the table highlight only your ongoing costs and do not reflect any transaction costs, such as redemption fees or sales loads. Therefore, the second line of the table is useful in comparing ongoing costs only and will not help you determine the relative total costs of owning different funds. To the extent a fund charges transaction costs, however, the total cost of owning that fund is higher.

## INTERNATIONAL STOCK PORTFOLIO

	Beginning Account Value 7/1/18	Ending Account Value 12/31/18	Expenses Paid During Period* 7/1/18 to 12/31/18
Actual	\$1,000.00	\$878.20	\$4.50
Hypothetical (assumes 5% return before expenses)	1,000.00	1,020.42	4.84

\* Expenses are equal to the fund's annualized expense ratio for the 6-month period (0.95%), multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year (184), and divided by the days in the year (365) to reflect the half-year period.

## FINANCIAL HIGHLIGHTS

For a share outstanding throughout each period

	Year Ended 12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 17.35	\$ 14.27	\$ 14.67	\$ 15.26	\$ 15.72
Investment activities					
Net investment income <sup>(1) (2)</sup>	0.21	0.17	0.17	0.14	0.15
Net realized and unrealized gain/loss	(2.67)	3.80	0.14	(0.28)	(0.35)
Total from investment activities	(2.46)	3.97	0.31	(0.14)	(0.20)
Distributions					
Net investment income	(0.23)	(0.19)	(0.16)	(0.15)	(0.17)
Net realized gain	(1.62)	(0.70)	(0.55)	(0.30)	(0.09)
Total distributions	(1.85)	(0.89)	(0.71)	(0.45)	(0.26)
<b>NET ASSET VALUE</b>					
End of period	\$ 13.04	\$ 17.35	\$ 14.27	\$ 14.67	\$ 15.26
<b>Ratios/Supplemental Data</b>					
Total return <sup>(2) (3)</sup>	(14.20)%	27.88%	2.13%	(0.90)%	(1.24)%
Ratios to average net assets: <sup>(2)</sup>					
Gross expenses before waivers/payments by Price Associates	1.00%	1.05%	1.05%	1.05%	1.05%
Net expenses after waivers/payments by Price Associates	1.00%	1.05%	1.05%	1.05%	1.05%
Net investment income	1.28%	1.04%	1.15%	0.88%	0.94%
Portfolio turnover rate	36.3%	34.0%	39.5%	37.3%	45.3%
Net assets, end of period (in thousands)	\$ 271,207	\$ 382,759	\$ 310,621	\$ 305,031	\$ 329,646

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</sup> See Note 7 for details of expense-related arrangements with Price Associates.

<sup>(3)</sup> Total return reflects the rate that an investor would have earned on an investment in the fund during each period, assuming reinvestment of all distributions.

The accompanying notes are an integral part of these financial statements.

## T. ROWE PRICE INTERNATIONAL STOCK PORTFOLIO

December 31, 2018

PORTFOLIO OF INVESTMENTS†	Shares	\$ Value
(Cost and value in \$000s)		
<b>ARGENTINA 0.4%</b>		
<b>Common Stocks 0.4%</b>		
Globant (USD) (1)	19,320	1,088
<b>Total Argentina</b> <b>(Cost \$1,015)</b>		<b>1,088</b>
<b>AUSTRALIA 2.2%</b>		
<b>Common Stocks 2.2%</b>		
Amcor	402,306	3,757
South32	931,255	2,215
<b>Total Australia</b> <b>(Cost \$4,533)</b>		<b>5,972</b>
<b>AUSTRIA 1.1%</b>		
<b>Common Stocks 1.1%</b>		
Erste Group Bank	90,505	3,001
<b>Total Austria</b> <b>(Cost \$2,780)</b>		<b>3,001</b>
<b>BRAZIL 1.4%</b>		
<b>Common Stocks 1.4%</b>		
Banco Bradesco, ADR (USD)	235,400	2,328
BB Seguridade Participacoes	105,027	748
StoneCo, Class A (USD) (1)(2)	35,539	655
<b>Total Brazil</b> <b>(Cost \$3,431)</b>		<b>3,731</b>
<b>CANADA 4.9%</b>		
<b>Common Stocks 4.9%</b>		
Canadian Natural Resources	96,700	2,333
Canadian Pacific Railway	11,433	2,029
Magna International (USD)	78,943	3,588
Restaurant Brands International	45,374	2,373
Seven Generations Energy Class A (1)	209,345	1,708
TransCanada (USD) (2)	37,800	1,350
<b>Total Canada</b> <b>(Cost \$14,918)</b>		<b>13,381</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>CHILE 0.5%</b>		
<b>Common Stocks 0.5%</b>		
Liberty Latin America, Class C (USD) (1)	85,914	1,252
<b>Total Chile</b> <b>(Cost \$1,963)</b>		<b>1,252</b>
<b>CHINA 6.9%</b>		
<b>Common Stocks 5.2%</b>		
Alibaba Group Holding, ADR (USD) (1)	33,500	4,592
China Mengniu Dairy (HKD)	497,000	1,547
China Overseas Land & Investment (HKD)	474,000	1,634
Ctrip.com International, ADR (USD) (1)	42,833	1,159
Tencent Holdings (HKD)	127,100	5,094
		14,026
<b>Common Stocks - China A Shares 1.5%</b>		
BTG Hotels Group (CNH)	300,491	701
Gree Electric Appliances of Zhuhai (CNH) (1)	272,300	1,422
Kweichow Moutai (CNH)	21,570	1,864
		3,987
<b>Convertible Preferred Stocks 0.2%</b>		
Xiaoju Kuaizhi, Class A-17 Acquisition Date: 10/19/15 Cost \$343 (USD) (1)(3)(4)(6)	12,518	587
		587
<b>Total China</b> <b>(Cost \$10,788)</b>		<b>18,600</b>
<b>FINLAND 1.1%</b>		
<b>Common Stocks 1.1%</b>		
Sampo, A Shares	67,594	2,996
<b>Total Finland</b> <b>(Cost \$2,896)</b>		<b>2,996</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>FRANCE 5.8%</b>		
<b>Common Stocks 5.8%</b>		
Air Liquide	24,631	3,059
Airbus	21,612	2,061
BNP Paribas	37,395	1,689
Dassault Aviation	1,562	2,166
Schneider Electric	18,830	1,277
Thales	38,545	4,504
Ubisoft Entertainment (1)	12,268	988
<b>Total France</b> <b>(Cost \$13,798)</b>		<b>15,744</b>
<b>GERMANY 6.4%</b>		
<b>Common Stocks 6.3%</b>		
Bayer	73,146	5,087
Fresenius	33,521	1,620
Infineon Technologies	38,649	774
Knorr-Bremse (1)	12,252	1,104
Merck	22,946	2,362
Scout24 (5)	31,308	1,436
Telefonica Deutschland Holding	479,450	1,887
Wirecard	11,014	1,660
Zalando (1)(5)	48,363	1,250
		17,180
<b>Preferred Stocks 0.1%</b>		
Sartorius, 0.51% (6)	3,198	398
		398
<b>Total Germany</b> <b>(Cost \$17,772)</b>		<b>17,578</b>
<b>HONG KONG 5.6%</b>		
<b>Common Stocks 5.6%</b>		
AIA Group	761,600	6,327
CK Hutchison Holdings	426,884	4,097
Jardine Matheson Holdings (USD)	68,700	4,783
<b>Total Hong Kong</b> <b>(Cost \$10,965)</b>		<b>15,207</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>INDIA 4.7%</b>		
<b>Common Stocks 4.7%</b>		
Axis Bank (1)	293,476	2,602
Housing Development Finance	191,482	5,386
NTPC	1,807,361	3,848
Yes Bank	330,813	861
<b>Total India</b> <b>(Cost \$7,627)</b>		<b>12,697</b>
<b>INDONESIA 1.9%</b>		
<b>Common Stocks 1.9%</b>		
Bank Central Asia	1,999,300	3,615
Sarana Menara Nusantara	32,763,200	1,573
<b>Total Indonesia</b> <b>(Cost \$2,684)</b>		<b>5,188</b>
<b>ITALY 0.9%</b>		
<b>Common Stocks 0.9%</b>		
Banca Mediolanum	396,690	2,313
<b>Total Italy</b> <b>(Cost \$2,942)</b>		<b>2,313</b>
<b>JAPAN 14.0%</b>		
<b>Common Stocks 14.0%</b>		
Astellas Pharma	13,100	167
Bridgestone	35,300	1,354
Chugai Pharmaceutical	33,700	1,955
Daiichi Sankyo	5,300	170
Disco	8,400	977
en-japan	22,200	687
Fujitsu General	124,400	1,599
Hoshizaki	5,800	352
Inpex	135,000	1,196
Japan Tobacco (2)	64,800	1,540
Kansai Paint	41,700	801
Koito Manufacturing	21,400	1,104
Kusuri No Aoki Holdings	9,500	600
Mercari (1)(2)	4,600	77
Mitsubishi Electric	251,100	2,769
Murata Manufacturing	16,600	2,237
Nippon Telegraph & Telephone	92,400	3,770

	Shares	\$ Value
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(Cost and value in \$000s)

Outsourcing	12,000	115
Persol Holdings	96,400	1,430
Renesas Electronics (1)	168,800	767
Sega Sammy Holdings	67,800	945
Seven & i Holdings	112,900	4,906
Stanley Electric	49,200	1,376
Suzuki Motor	19,800	998
Takeda Pharmaceutical (2)	93,300	3,162
Terumo	25,600	1,444
Yahoo Japan	591,100	1,470
<b>Total Japan</b> <b>(Cost \$38,275)</b>		<b>37,968</b>

**MEXICO 0.1%****Common Stocks 0.1%**

Banco Santander Mexico, ADR (USD)	35,610	219
<b>Total Mexico</b> <b>(Cost \$250)</b>		<b>219</b>

**NETHERLANDS 3.9%****Common Stocks 3.9%**

ASML Holding	19,930	3,122
Koninklijke Philips	77,886	2,731
NXP Semiconductors (USD)	65,529	4,802
<b>Total Netherlands</b> <b>(Cost \$10,069)</b>		<b>10,655</b>

**PERU 0.6%****Common Stocks 0.6%**

Credicorp (USD)	7,856	1,741
<b>Total Peru</b> <b>(Cost \$1,447)</b>		<b>1,741</b>

**PHILIPPINES 0.4%****Common Stocks 0.4%**

SM Investments	62,890	1,097
<b>Total Philippines</b> <b>(Cost \$1,025)</b>		<b>1,097</b>

	Shares	\$ Value
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(Cost and value in \$000s)

**PORTUGAL 1.6%****Common Stocks 1.6%**

Galp Energia	126,138	1,986
Jeronimo Martins	191,566	2,270
<b>Total Portugal</b> <b>(Cost \$5,029)</b>		<b>4,256</b>

**SAUDI ARABIA 0.3%****Common Stocks 0.3%**

Al Rajhi Bank	31,955	745
<b>Total Saudi Arabia</b> <b>(Cost \$720)</b>		<b>745</b>

**SINGAPORE 0.3%****Common Stocks 0.3%**

Sea, ADR (USD) (1)	63,109	714
<b>Total Singapore</b> <b>(Cost \$823)</b>		<b>714</b>

**SOUTH AFRICA 2.8%****Common Stocks 2.8%**

FirstRand	321,452	1,464
Naspers, N Shares	30,721	6,151
<b>Total South Africa</b> <b>(Cost \$7,563)</b>		<b>7,615</b>

**SOUTH KOREA 3.2%****Common Stocks 3.2%**

LG Household & Health Care	1,609	1,590
NAVER	31,429	3,445
Samsung Electronics	102,938	3,583
<b>Total South Korea</b> <b>(Cost \$6,708)</b>		<b>8,618</b>

**SPAIN 2.4%****Common Stocks 2.4%**

Amadeus IT Group	47,615	3,313
CaixaBank	472,895	1,713

	Shares	\$ Value
(Cost and value in \$000s)		
Grifols, ADR (USD)	74,141	1,361
<b>Total Spain</b> <b>(Cost \$5,263)</b>		<b>6,387</b>
<b>SWEDEN 2.9%</b>		
<b>Common Stocks 2.9%</b>		
Essity, B Shares	243,359	5,982
Hexagon, B Shares	39,357	1,820
<b>Total Sweden</b> <b>(Cost \$6,667)</b>		<b>7,802</b>
<b>SWITZERLAND 6.2%</b>		
<b>Common Stocks 6.2%</b>		
dormakaba Holding	2,089	1,264
Julius Baer Group	63,465	2,262
Lonza Group	7,840	2,038
Nestle	60,609	4,919
Roche Holding	7,050	1,750
UBS Group	363,507	4,534
<b>Total Switzerland</b> <b>(Cost \$17,284)</b>		<b>16,767</b>
<b>TAIWAN 2.3%</b>		
<b>Common Stocks 2.3%</b>		
Largan Precision	15,000	1,565
Taiwan Semiconductor Manufacturing	654,000	4,749
<b>Total Taiwan</b> <b>(Cost \$3,777)</b>		<b>6,314</b>
<b>THAILAND 0.6%</b>		
<b>Common Stocks 0.6%</b>		
CP ALL	804,900	1,696
<b>Total Thailand</b> <b>(Cost \$865)</b>		<b>1,696</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>UNITED ARAB EMIRATES 0.6%</b>		
<b>Common Stocks 0.6%</b>		
First Abu Dhabi Bank	427,712	1,642
<b>Total United Arab Emirates</b> <b>(Cost \$1,195)</b>		<b>1,642</b>
<b>UNITED KINGDOM 8.9%</b>		
<b>Common Stocks 8.9%</b>		
AstraZeneca, ADR (USD)	31,400	1,192
British American Tobacco	128,885	4,101
Burberry Group	67,482	1,482
ConvaTec Group (5)	656,469	1,163
Farfetch, Class A (USD) (1)(2)	29,368	520
LivaNova (USD) (1)	18,890	1,728
London Stock Exchange Group	42,599	2,210
Playtech	52,963	260
Prudential	114,689	2,048
Reckitt Benckiser Group	16,862	1,291
Shire	51,410	2,991
Smith & Nephew	180,983	3,388
Vodafone Group	970,849	1,888
<b>Total United Kingdom</b> <b>(Cost \$27,211)</b>		<b>24,262</b>
<b>UNITED STATES 3.9%</b>		
<b>Common Stocks 3.9%</b>		
Booking Holdings (1)	1,541	2,654
Linde (EUR) (2)	12,632	2,005
Mastercard, Class A	15,300	2,886
Philip Morris International	18,915	1,263
Waste Connections	25,600	1,901
<b>Total United States</b> <b>(Cost \$6,831)</b>		<b>10,709</b>
<b>SHORT-TERM INVESTMENTS 0.7%</b>		
<b>MONEY MARKET FUNDS 0.7%</b>		
T. Rowe Price Government Reserve Fund,		
2.45% (7)(8)	1,821,732	1,822
<b>Total Short-Term Investments</b> <b>(Cost \$1,822)</b>		<b>1,822</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>SECURITIES LENDING COLLATERAL 2.8%</b>		
<b>Investments in a Pooled Account through Securities Lending Program with JPMorgan Chase Bank 2.8%</b>		
<b>Short-Term Funds 2.8%</b>		
T. Rowe Price Short-Term Fund		
2.71% (7)(8)	761,252	7,613
Total Investments in a Pooled Account through Securities Lending Program with JPMorgan Chase Bank		
		7,613
<b>Total Securities Lending Collateral (Cost \$7,613)</b>		<b>7,613</b>
<b>Total Investments in Securities</b>		
<b>102.3% of Net Assets (Cost \$248,549)</b>	<b>\$</b>	<b>277,390</b>

‡ Country classifications are generally based on MSCI categories or another unaffiliated third party data provider; Shares are denominated in the currency of the country presented unless otherwise noted.

- (1) Non-income producing
  - (2) All or a portion of this security is on loan at December 31, 2018. See Note 4.
  - (3) Level 3 in fair value hierarchy. See Note 2.
  - (4) Security cannot be offered for public resale without first being registered under the Securities Act of 1933 and related rules ("restricted security"). Acquisition date represents the day on which an enforceable right to acquire such security is obtained and is presented along with related cost in the security description. The fund has registration rights for certain restricted securities. Any costs related to such registration are borne by the issuer. The aggregate value of restricted securities (excluding 144A holdings) at period-end amounts to \$587 and represents 0.2% of net assets.
  - (5) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be resold in transactions exempt from registration only to qualified institutional buyers – total value of such securities at period-end amounts to \$3,849 and represents 1.4% of net assets.
  - (6) Preferred stocks are shares that carry certain preferential rights. The dividend rate may not be consistent each pay period and could be zero for a particular year.
  - (7) Seven-day yield
  - (8) Affiliated Companies
- ADR American Depositary Receipts  
 CNH Offshore China Renminbi  
 EUR Euro  
 HKD Hong Kong Dollar  
 JPY Japanese Yen

**Forward Currency Exchange Contracts**

(Amounts in 000s)

Counterparty	Settlement	Receive	Deliver	Unrealized Gain (Loss)
Canadian Imperial Bank of Commerce	1/18/19	USD	1,459 JPY	165,382
<b>Net unrealized gain (loss) on open forward currency exchange contracts</b>				<b>\$ (52)</b>



**Affiliated Companies**

(\$000s)

The fund may invest in certain securities that are considered affiliated companies. As defined by the 1940 Act, an affiliated company is one in which the fund owns 5% or more of the outstanding voting securities, or a company that is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2018. Net realized gain (loss), investment income, change in net unrealized gain/loss, and purchase and sales cost reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Net Realized Gain (Loss)</b>	<b>Change in Net Unrealized Gain/Loss</b>	<b>Investment Income</b>
T. Rowe Price Government Reserve Fund	\$ —	\$ —	\$ 80
T. Rowe Price Short-Term Fund	—	—	— <sup>++</sup>
<b>Totals</b>	<b>\$ —<sup>#</sup></b>	<b>\$ —</b>	<b>\$ 80<sup>+</sup></b>

**Supplementary Investment Schedule**

<b>Affiliate</b>	<b>Value 12/31/17</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Value 12/31/18</b>
T. Rowe Price Government Reserve Fund	\$ 8,732	□	□ \$	1,822
T. Rowe Price Short-Term Fund	3,330	□	□	7,613
			\$	9,435 <sup>^</sup>

# Capital gain distributions from mutual funds represented \$0 of the net realized gain (loss).

++ Excludes earnings on securities lending collateral, which are subject to rebates and fees as described in Note 4.

+ Investment income comprised \$80 of dividend income and \$0 of interest income.

□ Purchase and sale information not shown for cash management funds.

^ The cost basis of investments in affiliated companies was \$9,435.

The accompanying notes are an integral part of these financial statements.

December 31, 2018

**STATEMENT OF ASSETS AND LIABILITIES**

(\$000s, except shares and per share amounts)

**Assets**

Investments in securities, at value (cost \$248,549)	\$	277,390
Receivable for investment securities sold		808
Dividends receivable		451
Foreign currency (cost \$430)		430
Receivable for shares sold		46
Other assets		386
Total assets		279,511

**Liabilities**

Obligation to return securities lending collateral		7,613
Payable for investment securities purchased		301
Investment management and administrative fees payable		260
Payable for shares redeemed		78
Unrealized loss on forward currency exchange contracts		52
Total liabilities		8,304

**NET ASSETS****\$ 271,207****Net Assets Consist of:**

Undistributed net investment income	\$	25
Accumulated undistributed net realized loss		(3,324)
Net unrealized gain		28,772
Paid-in capital applicable to 20,794,804 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized		245,734

**NET ASSETS****\$ 271,207****NET ASSET VALUE PER SHARE****\$ 13.04**

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF OPERATIONS**

(\$000s)

	Year Ended 12/31/18
<b>Investment Income (Loss)</b>	
Income	
Dividend (net of foreign taxes of \$648)	\$ 7,498
Securities lending	53
Total income	7,551
Investment management and administrative expense	3,324
Net investment income	4,227
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain (loss)	
Securities	25,827
Options written	70
Forward currency exchange contracts	25
Foreign currency transactions	(87)
Net realized gain	25,835
Change in net unrealized gain / loss	
Securities	(75,124)
Forward currency exchange contracts	16
Other assets and liabilities denominated in foreign currencies	(14)
Change in net unrealized gain / loss	(75,122)
Net realized and unrealized gain / loss	(49,287)
<b>DECREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ (45,060)</b>

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF CHANGES IN NET ASSETS**

(\$000s)

	Year Ended	
	12/31/18	12/31/17
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment income	\$ 4,227	\$ 3,712
Net realized gain	25,835	19,055
Change in net unrealized gain / loss	(75,122)	62,411
Increase (decrease) in net assets from operations	(45,060)	85,178
Distributions to shareholders		
Net investment income	(4,202)	(3,963)
Net realized gain	(29,597)	(14,600)
Decrease in net assets from distributions	(33,799)	(18,563)
Capital share transactions*		
Shares sold	17,045	20,697
Distributions reinvested	33,799	18,563
Shares redeemed	(83,537)	(33,737)
Increase (decrease) in net assets from capital share transactions	(32,693)	5,523
<b>Net Assets</b>		
Increase (decrease) during period	(111,552)	72,138
Beginning of period	382,759	310,621
<b>End of period</b>	<b>\$ 271,207</b>	<b>\$ 382,759</b>
Undistributed net investment income	25	-
<b>*Share information</b>		
Shares sold	1,000	1,234
Distributions reinvested	2,586	1,081
Shares redeemed	(4,853)	(2,025)
Increase (decrease) in shares outstanding	(1,267)	290

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

T. Rowe Price International Series, Inc. (the corporation) is registered under the Investment Company Act of 1940 (the 1940 Act). The International Stock (the fund) is a diversified, open-end management investment company established by the corporation. The fund seeks long-term growth of capital through investments primarily in the common stocks of established, non-U.S. companies. Shares of the fund are currently offered only through certain insurance companies as an investment medium for both variable annuity contracts and variable life insurance policies.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation** The fund is an investment company and follows accounting and reporting guidance in the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* Topic 946 (ASC 946). The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including, but not limited to, ASC 946. GAAP requires the use of estimates made by management. Management believes that estimates and valuations are appropriate; however, actual results may differ from those estimates, and the valuations reflected in the accompanying financial statements may differ from the value ultimately realized upon sale or maturity. Certain ratios in the accompanying Financial Highlights have been included to conform to the current year presentation.

**Investment Transactions, Investment Income, and Distributions** Investment transactions are accounted for on the trade date basis. Income and expenses are recorded on the accrual basis. Realized gains and losses are reported on the identified cost basis. Income tax-related interest and penalties, if incurred, are recorded as income tax expense. Dividends received from mutual fund investments are reflected as dividend income; capital gain distributions are reflected as realized gain/loss. Dividend income and capital gain distributions are recorded on the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date. Income distributions are declared daily and paid monthly. A capital gain distribution may also be declared and paid by the fund annually.

**Currency Translation** Assets, including investments, and liabilities denominated in foreign currencies are translated into U.S. dollar values each day at the prevailing exchange rate, using the mean of the bid and asked prices of such currencies against U.S. dollars as quoted by a major bank. Purchases and sales of securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rate on the respective date of such transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is not bifurcated from the portion attributable to changes in market prices.

**New Accounting Guidance** In March 2017, the FASB issued amended guidance to shorten the amortization period for certain callable debt securities held at a premium. The guidance is effective for fiscal years and interim periods beginning after December 15, 2018. Adoption will have no effect on the fund's net assets or results of operations.

**Indemnification** In the normal course of business, the fund may provide indemnification in connection with its officers and directors, service providers, and/or private company investments. The fund's maximum exposure under these arrangements is unknown; however, the risk of material loss is currently considered to be remote.

## NOTE 2 - VALUATION

The fund's financial instruments are valued and its net asset value (NAV) per share is computed at the close of the New York Stock Exchange (NYSE), normally 4 p.m. ET, each day the NYSE is open for business. However, the NAV per share may be calculated at a time other than the normal close of the NYSE if trading on the NYSE is restricted, if the NYSE closes earlier, or as may be permitted by the SEC.

**Fair Value** The fund's financial instruments are reported at fair value, which GAAP defines as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The T. Rowe Price Valuation Committee (the Valuation Committee) is an internal committee that has been delegated certain responsibilities by the fund's Board of Directors (the Board) to ensure that financial instruments are appropriately priced at fair value in accordance with GAAP and the 1940 Act. Subject to oversight by the Board, the Valuation Committee develops and oversees pricing-related policies and procedures and approves all fair value determinations. Specifically, the Valuation Committee establishes procedures to value securities; determines pricing techniques, sources, and persons eligible to effect fair value pricing actions; oversees the selection, services, and performance of pricing vendors; oversees valuation-related business continuity practices; and provides guidance on internal controls and valuation-related matters. The Valuation Committee reports to the Board and has representation from legal, portfolio management and trading, operations, risk management, and the fund's treasurer.

Various valuation techniques and inputs are used to determine the fair value of financial instruments. GAAP establishes the following fair value hierarchy that categorizes the inputs used to measure fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical financial instruments that the fund can access at the reporting date

Level 2 – inputs other than Level 1 quoted prices that are observable, either directly or indirectly (including, but not limited to, quoted prices for similar financial instruments in active markets, quoted prices for identical or similar financial instruments in inactive markets, interest rates and yield curves, implied volatilities, and credit spreads)

Level 3 – unobservable inputs

Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use to price the financial instrument. Unobservable inputs are those for which market data are not available and are developed using the best information available about the assumptions that market participants would use to price the financial instrument. GAAP requires valuation techniques to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. When multiple inputs are used to derive fair value, the financial instrument is assigned to the level within the fair value hierarchy based on the lowest-level input that is significant to the fair value of the financial instrument. Input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level but rather the degree of judgment used in determining those values.

**Valuation Techniques** Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (OTC) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made. OTC Bulletin Board securities are valued at the mean of the closing bid and asked prices. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. Listed securities not traded on a particular day are valued at the mean of the closing bid and asked prices for domestic securities and the last quoted sale or closing price for international securities.

For valuation purposes, the last quoted prices of non-U.S. equity securities may be adjusted to reflect the fair value of such securities at the close of the NYSE. If the fund determines that developments between the close of a foreign market and the close of the NYSE will affect the value of some or all of its portfolio securities, the fund will adjust the previous quoted prices to reflect what it believes to be the fair value of the securities as of the close of the NYSE. In deciding whether it is necessary to adjust quoted prices to reflect fair value, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, such as when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with quoted prices and information to evaluate or adjust those prices. The fund cannot predict how often it will use quoted prices and how often it will determine it necessary to adjust those prices to reflect fair value. As a means of evaluating its security valuation process, the fund routinely compares quoted prices, the next day's opening prices in the same markets, and adjusted prices.

Actively traded equity securities listed on a domestic exchange generally are categorized in Level 1 of the fair value hierarchy. Non-U.S. equity securities generally are categorized in Level 2 of the fair value hierarchy despite the availability of quoted prices because, as described above, the fund evaluates and determines whether those quoted prices reflect fair value at the close of the NYSE or require adjustment. OTC Bulletin Board securities, certain preferred securities, and equity securities traded in inactive markets generally are categorized in Level 2 of the fair value hierarchy.

Investments in mutual funds are valued at the mutual fund's closing NAV per share on the day of valuation and are categorized in Level 1 of the fair value hierarchy. Forward currency exchange contracts are valued using the prevailing forward exchange rate and are categorized in Level 2 of the fair value hierarchy. Assets and liabilities other than financial instruments, including short-term receivables and payables, are carried at cost, or estimated realizable value, if less, which approximates fair value.

Thinly traded financial instruments and those for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by the Valuation Committee. The objective of any fair value pricing determination is to arrive at a price that could reasonably be expected from a current sale. Financial instruments fair valued by the Valuation Committee are primarily private placements, restricted securities, warrants, rights, and other securities that are not publicly traded.

Subject to oversight by the Board, the Valuation Committee regularly makes good faith judgments to establish and adjust the fair valuations of certain securities as events occur and circumstances warrant. For instance, in determining the fair value of an equity investment with limited market activity, such as a private placement or a thinly traded public company stock, the Valuation Committee considers a variety of factors, which may include, but are not limited to, the issuer's business prospects, its financial standing and performance, recent investment transactions in the issuer, new rounds of financing, negotiated transactions of significant size between other investors in the company, relevant market valuations of peer companies, strategic events affecting the company, market liquidity for the issuer, and general economic conditions and events. In consultation with the investment and pricing teams, the Valuation Committee will determine an appropriate valuation technique based on available information, which may include both observable and unobservable inputs. The Valuation Committee typically will afford greatest weight to actual prices in arm's length transactions, to the extent they represent orderly transactions between market participants; transaction information can be reliably obtained, and prices are deemed representative of fair value. However, the Valuation Committee may also consider other valuation methods such as market-based valuation multiples; a discount or premium from market value of a similar, freely traded security of the same issuer; or some combination. Fair value determinations are reviewed on a regular basis and updated as information becomes available, including actual purchase and sale transactions of the issue. Because any fair value determination involves a significant amount of judgment, there is a degree of subjectivity inherent in such pricing decisions, and fair value prices determined by the Valuation Committee could differ from those of other market participants. Depending on the relative significance of unobservable inputs, including the valuation technique(s) used, fair valued securities may be categorized in Level 2 or 3 of the fair value hierarchy.

**Valuation Inputs** The following table summarizes the fund's financial instruments, based on the inputs used to determine their fair values on December 31, 2018 (for further detail by category, please refer to the accompanying Portfolio of Investments):

(\$000s)	Level 1	Level 2	Level 3	Total Value
<b>Assets</b>				
Common Stocks	\$ 39,366	\$ 227,604	\$ -	\$ 266,970
Convertible Preferred Stocks	-	-	587	587
Preferred Stocks	-	398	-	398
Short-Term Investments	1,822	-	-	1,822
Securities Lending Collateral	7,613	-	-	7,613
Total	\$ 48,801	\$ 228,002	\$ 587	\$ 277,390
<b>Liabilities</b>				
Forward Currency Exchange Contracts	\$ -	\$ 52	\$ -	\$ 52

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2018.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2018. Gain (loss) reflects both realized and change in unrealized gain/loss on Level 3 holdings during the period, if any, and is included on the accompanying Statement of Operations. The change in unrealized gain/loss on Level 3 instruments held at December 31, 2018, totaled \$(51,000) for the year ended December 31, 2018.

(\$000s)	Beginning Balance 1/1/18	Gain (Loss) During Period	Ending Balance 12/31/18
Investment in Securities			
Convertible Preferred Stocks	\$ 638	\$ (51)	\$ 587

**NOTE 3 - DERIVATIVE INSTRUMENTS**

During the year ended December 31, 2018, the fund invested in derivative instruments. As defined by GAAP, a derivative is a financial instrument whose value is derived from an underlying security price, foreign exchange rate, interest rate, index of prices or rates, or other variable; it requires little or no initial investment and permits or requires net settlement. The fund invests in derivatives only if the expected risks and rewards are consistent with its investment objectives, policies, and overall risk profile, as described in its prospectus and Statement of Additional Information. The fund may use derivatives for a variety of purposes, such as seeking to hedge against declines in principal value, increase yield, invest in an asset with greater efficiency and at a lower cost than is possible through direct investment, to enhance return, or to adjust credit exposure. The risks associated with the use of derivatives are different from, and potentially much greater than, the risks associated with investing directly in the instruments on which the derivatives are based. The fund at all times maintains sufficient cash reserves, liquid assets, or other SEC-permitted asset types to cover its settlement obligations under open derivative contracts.

The fund values its derivatives at fair value and recognizes changes in fair value currently in its results of operations. Accordingly, the fund does not follow hedge accounting, even for derivatives employed as economic hedges. Generally, the fund accounts for its derivatives on a gross basis. It does not offset the fair value of derivative liabilities against the fair value of derivative assets on its financial statements, nor does it offset the fair value of derivative instruments against the right to reclaim or obligation to return collateral. As of December 31, 2018, the fund held foreign exchange derivatives with a fair value of \$52,000, included in unrealized loss on forward currency exchange contracts, on the accompanying Statement of Assets and Liabilities.

Additionally, the amount of gains and losses on derivative instruments recognized in fund earnings during the year ended December 31, 2018, and the related location on the accompanying Statement of Operations is summarized in the following table by primary underlying risk exposure:

(\$000s)	Location of Gain (Loss) on Statement of Operations			
	Options Written		Forward Currency Exchange Contracts	Total
<b>Realized Gain (Loss)</b>				
Foreign exchange derivatives	\$	–	\$ 25	\$ 25
Equity derivatives		70	–	70
Total	\$	70	\$ 25	\$ 95
<b>Change in Unrealized Gain (Loss)</b>				
Foreign exchange derivatives	\$	–	\$ 16	\$ 16
Total	\$	–	\$ 16	\$ 16

**Counterparty Risk and Collateral** The fund invests in derivatives, such as bilateral swaps, forward currency exchange contracts, or OTC options, that are transacted and settle directly with a counterparty (bilateral derivatives), and thereby may expose the fund to counterparty risk. To mitigate this risk, the fund has entered into master netting arrangements (MNAs) with certain counterparties that permit net settlement under specified conditions and, for certain counterparties, also require the exchange of collateral to cover mark-to-market exposure. MNAs may be in the form of International Swaps and Derivatives Association master agreements (ISDAs) or foreign exchange letter agreements (FX letters).



MNAs govern the ability to offset amounts the fund owes a counterparty against amounts the counterparty owes the fund (net settlement). Both ISDAs and FX letters generally allow termination of transactions and net settlement upon the occurrence of contractually specified events, such as failure to pay or bankruptcy. In addition, ISDAs specify other events, the occurrence of which would allow one of the parties to terminate. For example, a downgrade in credit rating of a counterparty below a specified rating would allow the fund to terminate, while a decline in the fund's net assets of more than a specified percentage would allow the counterparty to terminate. Upon termination, all transactions with that counterparty would be liquidated and a net termination amount determined. ISDAs include collateral agreements whereas FX letters do not. Collateral requirements are determined daily based on the net aggregate unrealized gain or loss on all bilateral derivatives with each counterparty, subject to minimum transfer amounts that typically range from \$100,000 to \$250,000. Any additional collateral required due to changes in security values is typically transferred the same business day.

Collateral may be in the form of cash or debt securities issued by the U.S. government or related agencies. Cash posted by the fund is reflected as cash deposits in the accompanying financial statements and generally is restricted from withdrawal by the fund; securities posted by the fund are so noted in the accompanying Portfolio of Investments; both remain in the fund's assets. Collateral pledged by counterparties is not included in the fund's assets because the fund does not obtain effective control over those assets. For bilateral derivatives, collateral posted or received by the fund is held in a segregated account at the fund's custodian. While typically not sold in the same manner as equity or fixed income securities, OTC and bilateral derivatives may be unwound with counterparties or transactions assigned to other counterparties to allow the fund to exit the transaction. This ability is subject to the liquidity of underlying positions. As of December 31, 2018 no collateral was pledged by either the fund or counterparties for bilateral derivatives.

**Forward Currency Exchange Contracts** The fund is subject to foreign currency exchange rate risk in the normal course of pursuing its investment objectives. It uses forward currency exchange contracts (forwards) primarily to protect its non-U.S. dollar-denominated securities from adverse currency movements. A forward involves an obligation to purchase or sell a fixed amount of a specific currency on a future date at a price set at the time of the contract. Although certain forwards may be settled by exchanging only the net gain or loss on the contract, most forwards are settled with the exchange of the underlying currencies in accordance with the specified terms. Forwards are valued at the unrealized gain or loss on the contract, which reflects the net amount the fund either is entitled to receive or obligated to deliver, as measured by the difference between the forward exchange rates at the date of entry into the contract and the forward rates at the reporting date. Appreciated forwards are reflected as assets and depreciated forwards are reflected as liabilities on the accompanying Statement of Assets and Liabilities. Risks related to the use of forwards include the possible failure of counterparties to meet the terms of the agreements; that anticipated currency movements will not occur, thereby reducing the fund's total return; and the potential for losses in excess of the fund's initial investment. During the year ended December 31, 2018, the volume of the fund's activity in forwards, based on underlying notional amounts, was generally between 0% and 1% of net assets.

**Options** The fund is subject to equity price risk in the normal course of pursuing its investment objectives and uses options to help manage such risk. The fund may use options to manage exposure to security prices, interest rates, foreign currencies, and credit quality; as an efficient means of adjusting exposure to all or a part of a target market; to enhance income; as a cash management tool; or to adjust credit exposure. Options are included in net assets at fair value, options purchased are included in Investments in Securities, and Options written are separately reflected as a liability on the accompanying Statement of Assets and Liabilities. Premiums on unexercised, expired options are recorded as realized gains or losses; premiums on exercised options are recorded as an adjustment to the proceeds from the sale or cost of the purchase. The difference between the premium and the amount received or paid in a closing transaction is also treated as realized gain or loss. In return for a premium paid, call and put options give the holder the right, but not the obligation, to purchase or sell, respectively, a security at a specified exercise price. Risks related to the use of options include possible illiquidity of the options markets; trading restrictions imposed by an exchange or counterparty; movements in the underlying asset values, and, for Options written, potential losses in excess of the fund's initial investment. During the year ended December 31, 2018, the volume of the fund's activity in options, based on underlying notional amounts, was generally less than 1% of net assets.

#### NOTE 4 - OTHER INVESTMENT TRANSACTIONS

Consistent with its investment objective, the fund engages in the following practices to manage exposure to certain risks and/or to enhance performance. The investment objective, policies, program, and risk factors of the fund are described more fully in the fund's prospectus and Statement of Additional Information.

**Emerging Markets** The fund may invest, either directly or through investments in T. Rowe Price institutional funds, in securities of companies located in, issued by governments of, or denominated in or linked to the currencies of emerging market countries; at period-end, approximately 26% of the fund's net assets were invested in emerging markets. Emerging markets generally have economic structures that are less diverse and mature, and political systems that are less stable, than developed countries. These markets may be subject to greater political, economic, and social uncertainty and differing regulatory environments that may potentially impact the fund's ability to buy or sell certain securities or repatriate proceeds to U.S. dollars. Such securities are often subject to greater price volatility, less liquidity, and higher rates of inflation than U.S. securities.

**Restricted Securities** The fund may invest in securities that are subject to legal or contractual restrictions on resale. Prompt sale of such securities at an acceptable price may be difficult and may involve substantial delays and additional costs.

**Securities Lending** The fund may lend its securities to approved borrowers to earn additional income. Its securities lending activities are administered by a lending agent in accordance with a securities lending agreement. Security loans generally do not have stated maturity dates, and the fund may recall a security at any time. The fund receives collateral in the form of cash or U.S. government securities. Collateral is maintained over the life of the loan in an amount not less than the value of loaned securities; any additional collateral required due to changes in security values is delivered to the fund the next business day. Cash collateral is invested in accordance with investment guidelines approved by fund management. Additionally, the lending agent indemnifies the fund against losses resulting from borrower default. Although risk is mitigated by the collateral and indemnification, the fund could experience a delay in recovering its securities and a possible loss of income or value if the borrower fails to return the securities, collateral investments decline in value, and the lending agent fails to perform. Securities lending revenue consists of earnings on invested collateral and borrowing fees, net of any rebates to the borrower, compensation to the lending agent, and other administrative costs. In accordance with GAAP, investments made with cash collateral are reflected in the accompanying financial statements, but collateral received in the form of securities is not. At December 31, 2018, the value of loaned securities was \$7,352,000; the value of cash collateral and related investments was \$7,613,000.

**Other** Purchases and sales of portfolio securities other than short-term securities aggregated \$118,110,000 and \$174,268,000, respectively, for the year ended December 31, 2018.

## NOTE 5 - FEDERAL INCOME TAXES

No provision for federal income taxes is required since the fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code and distribute to shareholders all of its taxable income and gains. Distributions determined in accordance with federal income tax regulations may differ in amount or character from net investment income and realized gains for financial reporting purposes. Financial reporting records are adjusted for permanent book/tax differences to reflect tax character but are not adjusted for temporary differences.

The fund files U.S. federal, state, and local tax returns as required. The fund's tax returns are subject to examination by the relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

Distributions during the years ended December 31, 2018 and December 31, 2017, were characterized for tax purposes as follows:

(\$000s)

	December 31	
	2018	2017
Ordinary income	\$ 8,039	\$ 6,883
Long-term capital gain	25,760	11,680
Total distributions	\$ 33,799	\$ 18,563

At December 31, 2018, the tax-basis cost of investments, including derivatives, and components of net assets were as follows:

(\$000s)		
Cost of investments	\$	253,838
Unrealized appreciation	\$	52,772
Unrealized depreciation		(29,290)
Net unrealized appreciation (depreciation)		23,482
Undistributed ordinary income		36
Undistributed long-term capital gain		2,086
Late-year ordinary loss deferrals		(131)
Paid-in capital		245,734
Net assets	\$	271,207

The difference between book-basis and tax-basis net unrealized appreciation (depreciation) is attributable to the deferral of losses from wash sales and/or certain derivative contracts, the realization of gains/losses on passive foreign investment companies and/or certain open derivative contracts for tax purposes.

In accordance with federal tax laws applicable to investment companies, net specified losses realized between November 1 and December 31 are not recognized for tax purposes until the subsequent year (late-year ordinary loss deferrals); however, such losses are recognized for financial reporting purposes in the year realized.

## NOTE 6 - FOREIGN TAXES

The fund is subject to foreign income taxes imposed by certain countries in which it invests. Additionally, certain foreign currency transactions are subject to tax, and capital gains realized upon disposition of securities issued in or by certain foreign countries are subject to capital gains tax imposed by those countries. All taxes are computed in accordance with the applicable foreign tax law, and, to the extent permitted, capital losses are used to offset capital gains. Taxes attributable to income are accrued by the fund as a reduction of income. Taxes incurred on the purchase of foreign currencies are recorded as realized loss on foreign currency transactions. Current and deferred tax expense attributable to capital gains is reflected as a component of realized or change in unrealized gain/loss on securities in the accompanying financial statements. At December 31, 2018, the fund had no deferred tax liability attributable to foreign securities and \$1,316,000 of foreign capital loss carryforwards, including \$180,000 that expire in 2019, \$390,000 that expire in 2020, \$37,000 that expire in 2021, \$17,000 that expire in 2022, \$181,000 that expire in 2023, \$21,000 that expire in 2025, \$286,000 that expire in 2026 and \$204,000 that expire in 2027.

## NOTE 7 - RELATED PARTY TRANSACTIONS

The fund is managed by T. Rowe Price Associates, Inc. (Price Associates), a wholly owned subsidiary of T. Rowe Price Group, Inc. (Price Group). Price Associates has entered into a sub-advisory agreement(s) with one or more of its wholly owned subsidiaries, to provide investment advisory services to the fund. The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 1.05% of the fund's average daily net assets. The fee is computed daily and paid monthly. The all-inclusive fee covers investment management, shareholder servicing, transfer agency, accounting, and custody services provided to the fund, as well as fund directors' fees and expenses. Interest, taxes, brokerage commissions, and other non-recurring expenses permitted by the investment management agreement are paid directly by the fund. Effective July 1, 2018, T. Rowe Price has contractually agreed to waive a portion of the management fee it is entitled to receive from the fund in order to limit the fund's overall management fee rate to 0.95% of the fund's average daily net assets, through at least April 30, 2020. This contractual arrangement will renew automatically for one-year terms thereafter and may be terminated only with approval of the fund's Board. The fund has no obligation to repay fees reduced under this arrangement.

The fund may invest its cash reserves in certain open-end management investment companies managed by Price Associates and considered affiliates of the fund: the T. Rowe Price Government Reserve Fund or the T. Rowe Price Treasury Reserve Fund, organized as money market funds, or the T. Rowe Price Short-Term Fund, a short-term bond fund (collectively, the Price Reserve Funds). The Price Reserve Funds are offered as short-term investment options to mutual funds, trusts, and other accounts managed by Price Associates or its affiliates and are not available for direct purchase by members of the public. Cash collateral from securities lending is invested in the T. Rowe Price Short-Term Fund. The Price Reserve Funds pay no investment management fees.

The fund may participate in securities purchase and sale transactions with other funds or accounts advised by Price Associates (cross trades), in accordance with procedures adopted by the fund's Board and Securities and Exchange Commission rules, which require, among other things, that such purchase and sale cross trades be effected at the independent current market price of the security. During the year ended December 31, 2018, the aggregate value of purchases and sales cross trades with other funds or accounts advised by Price Associates was less than 1% of the fund's net assets as of December 31, 2018.

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors of T. Rowe Price International Series, Inc.  
and Shareholders of T. Rowe Price International Stock Portfolio**

**Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of T. Rowe Price International Stock Portfolio (one of the portfolios constituting T. Rowe Price International Funds, Inc., hereafter referred to as the “Fund”) as of December 31, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 7, 2019

We have served as the auditor of one or more investment companies in the T. Rowe Price group of investment companies since 1973.

**TAX INFORMATION (UNAUDITED) FOR THE TAX YEAR ENDED 12/31/18**

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements.

The fund's distributions to shareholders included

- \$3,837,000 from short-term capital gains.
- \$25,760,000 from long-term capital gains, subject to a long-term capital gains tax rate of not greater than 20%.

For taxable non-corporate shareholders, \$5,677,000 of the fund's income represents qualified dividend income subject to a long-term capital gains tax rate of not greater than 20%.

For corporate shareholders, \$452,000 of the fund's income qualifies for the dividends-received deduction.

The fund will pass through foreign source income of \$5,741,000 and foreign taxes paid of \$481,000.

**INFORMATION ON PROXY VOTING POLICIES, PROCEDURES, AND RECORDS**

A description of the policies and procedures used by T. Rowe Price funds and portfolios to determine how to vote proxies relating to portfolio securities is available in each fund's Statement of Additional Information. You may request this document by calling 1-800-225-5132 or by accessing the SEC's website, sec.gov.

The description of our proxy voting policies and procedures is also available on our corporate website. To access it, please visit the following Web page:

<https://www3.troweprice.com/usis/corporate/en/utility/policies.html>

Scroll down to the section near the bottom of the page that says, "Proxy Voting Policies." Click on the Proxy Voting Policies link in the shaded box.

Each fund's most recent annual proxy voting record is available on our website and through the SEC's website. To access it through T. Rowe Price, visit the website location shown above, and scroll down to the section near the bottom of the page that says, "Proxy Voting Records." Click on the Proxy Voting Records link in the shaded box.

**HOW TO OBTAIN QUARTERLY PORTFOLIO HOLDINGS**

Effective for reporting periods on or after March 1, 2019, the fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT. Prior to March 1, 2019, the fund filed a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-PORT and N-Q are available electronically on the SEC's website (sec.gov).

## ABOUT THE PORTFOLIO'S DIRECTORS AND OFFICERS

Your fund is overseen by a Board of Directors (Board) that meets regularly to review a wide variety of matters affecting or potentially affecting the fund, including performance, investment programs, compliance matters, advisory fees and expenses, service providers, and business and regulatory affairs. The Board elects the fund's officers, who are listed in the final table. At least 75% of the Board's members are independent of the Boards of T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates; "inside" or "interested" directors are employees or officers of T. Rowe Price. The business address of each director and officer is 100 East Pratt Street, Baltimore, Maryland 21202. The Statement of Additional Information includes additional information about the fund directors and is available without charge by calling a T. Rowe Price representative at 1-800-638-5660.

## INDEPENDENT DIRECTORS<sup>(a)</sup>

<b>Name (Year of Birth) Year Elected [Number of T. Rowe Price Portfolios Overseen]</b>	<b>Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies During the Past Five Years</b>
Teresa Bryce Bazemore <sup>(b)</sup> (1959) 2018 [189]	President, Radian Guaranty (2008 to 2017); Member, Bazemore Consulting LLC (2018 to present); Member, Chimera Investment Corporation (2017 to present); Member, Federal Home Loan Bank of Pittsburgh (2017 to present)
Ronald J. Daniels <sup>(b)</sup> (1959) 2018 [189]	President, The Johns Hopkins University <sup>(c)</sup> and Professor, Political Science Department, The Johns Hopkins University (2009 to present); Director, Lyndhurst Holdings (2015 to present)
Bruce W. Duncan (1951) 2013 [189]	Chief Executive Officer and Director (January 2009 to December 2016), Chairman of the Board (January 2016 to present), and President (January 2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to September 2016) and Director (1999 to September 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present); Director, Marriott International, Inc. (September 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [189]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present); Chairman of the Board, all funds (since July 2018)
Paul F. McBride (1956) 2013 [189]	Advisory Board Member, Vizzia Technologies (2015 to present); Board Member, Dunbar Armored (2012 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [189]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Member of National Academy of Education (2010 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Research Associate of Labor Studies Program at the National Bureau of Economic Research (2011 to 2015); Board Member of the National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession of the American Economic Association (2012 to 2017); Vice President (2015 to 2016), American Economic Association
John G. Schreiber (1946) 2001 [189]	Owner/President, Centaur Capital Partners, Inc., a real estate investment company (1991 to present); Cofounder, Partner, and Cochairman of the Investment Committee, Blackstone Real Estate Advisors, L.P. (1992 to 2015); Director, General Growth Properties, Inc. (2010 to 2013); Director, Blackstone Mortgage Trust, a real estate finance company (2012 to 2016); Director and Chairman of the Board, Brixmor Property Group, Inc. (2013 to present); Director, Hilton Worldwide (2013 to present); Director, Hudson Pacific Properties (2014 to 2016); Director, Invitation Homes (2014 to present)
Mark R. Tercek (1957) 2009 [189]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

<sup>(a)</sup>All information about the independent directors was current as of December 31, 2017, except for the information provided for Ms. Bazemore and Mr. Daniels, which is current as of January 1, 2018.

<sup>(b)</sup>Effective January 1, 2018, Ms. Bazemore and Mr. Daniels were elected as independent directors of the Price Funds.

<sup>(c)</sup>William J. Stromberg, president and chief executive officer of T. Rowe Price Group, Inc., the parent company of the Price Funds' investment advisor, has served on the Board of Trustees of Johns Hopkins University since 2014 and is a member of the Johns Hopkins University Board's Compensation Committee.

**INSIDE DIRECTORS**

<b>Name (Year of Birth) Year Elected* [Number of T. Rowe Price Portfolios Overseen]</b>	<b>Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies During the Past Five Years</b>
Edward C. Bernard** (1956) 2006 [0]	Director and Vice President, T. Rowe Price; Vice Chairman of the Board, Director, and Vice President, T. Rowe Price Group, Inc.; Chairman of the Board, Director, and Vice President, T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc.; Chairman of the Board, Chief Executive Officer, Director, and President, T. Rowe Price International and T. Rowe Price Trust Company; Chairman of the Board, all funds (2006 to July 2018)
David Oestreicher (1967) 2018 [189]	Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Director, Vice President, and Secretary, T. Rowe Price Investment Services, Inc., T. Rowe Price Retirement Plan Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; Vice President and Secretary, T. Rowe Price, T. Rowe Price Hong Kong, and T. Rowe Price International; Vice President, T. Rowe Price Japan and T. Rowe Price Singapore; Principal Executive Officer and Executive Vice President, all funds
Robert W. Sharps, CFA, CPA (1971) 2017 [135]	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company

\* Each inside director serves until retirement, resignation, or election of a successor.

\*\* Effective at the conclusion of a meeting of the Boards of the Price Funds held on July 25, 2018, Mr. Bernard resigned from his role as a director and chairman of the Boards of all the Price Funds.

**OFFICERS**

<b>Name (Year of Birth) Position Held With International Series</b>	<b>Principal Occupation(s)</b>
Christopher D. Alderson (1962) President	Director and Vice President, T. Rowe Price International; Vice President, Price Hong Kong, Price Singapore, and T. Rowe Price Group, Inc.
Harishankar Balkrishna (1983) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International
Sheena L. Barbosa (1983) Vice President	Vice President, Price Hong Kong and T. Rowe Price Group, Inc.
Darrell N. Braman (1963) Vice President and Secretary	Vice President, Price Hong Kong, Price Singapore, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Richard N. Clattenburg, CFA (1979) Executive Vice President	Vice President, Price Singapore, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price International
John R. Gilner (1961) Chief Compliance Officer	Chief Compliance Officer and Vice President, T. Rowe Price; Vice President, T. Rowe Price Group, Inc., and T. Rowe Price Investment Services, Inc.
Gary J. Greb (1961) Vice President	Vice President, T. Rowe Price, T. Rowe Price International, and T. Rowe Price Trust Company
Jai Kapadia (1982) Vice President	Vice President, Price Hong Kong and T. Rowe Price Group, Inc.
Paul J. Krug, CPA (1964) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Catherine D. Mathews (1963) Treasurer and Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Tobias F. Mueller (1980) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International
Oluwaseun A. Oyegunle, CFA (1984) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International; formerly, student, The Wharton School, University of Pennsylvania (to 2013)

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.



**OFFICERS (CONTINUED)**

John W. Ratzesberger (1975) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company; formerly, North American Head of Listed Derivatives Operation, Morgan Stanley (to 2013)
Shannon H. Rauser (1987) Assistant Secretary	Employee, T. Rowe Price
Sebastian Schrott (1977) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International
Megan Warren (1968) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Retirement Plan Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; formerly, Executive Director, JP Morgan Chase (to 2017)
Ernest C. Yeung, CFA (1979) Executive Vice President	Director, Responsible Officer, and Vice President, Price Hong Kong; Vice President, T. Rowe Price Group, Inc.

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

# T.RowePrice<sup>®</sup>

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