



# The Patriot

## Sentry Variable Account II

### Annual Report December 31, 2016

A flexible premium deferred variable annuity funded by T. Rowe Price Fixed Income Series, Inc., T. Rowe Price Equity Series, Inc., T. Rowe Price International Series, Inc., Janus Aspen Series, and Vanguard Variable Insurance Fund

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Sentry Life Insurance Company  
and  
The Contract Owners  
Sentry Variable Account II:

We have audited the accompanying statement of assets and liabilities of Sentry Variable Account II (comprised of the sub-accounts listed in the statement of assets and liabilities, collectively, the Accounts), as of December 31, 2016, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Accounts' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the transfer agent of the underlying mutual funds. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Sentry Variable Account II as of December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

Milwaukee, Wisconsin  
February 24, 2017

# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENT OF ASSETS AND LIABILITIES

December 31, 2016

#### Assets:

Investments at fair value:

#### Janus Aspen Series:

Aspen Janus Portfolio, 24,088 shares (cost \$636,798)	\$ 696,874
Aspen Enterprise Portfolio, 193,676 shares (cost \$7,224,010)	11,479,186
Aspen Forty Portfolio, 34,298 shares (cost \$1,193,934)	1,104,059
* Aspen Global Research Portfolio, 8,165 shares (cost \$246,477)	331,744
Aspen Balanced Portfolio, 34,353 shares (cost \$950,363)	1,041,571

#### T. Rowe Price Fixed Income Series, Inc.:

** Government Money Portfolio, 763,569 shares (cost \$763,569)	763,569
Limited Term Bond Portfolio, 199,886 shares (cost \$997,164)	967,449

#### T. Rowe Price Equity Series, Inc.:

Equity Income Portfolio, 47,280 shares (cost \$1,015,177)	1,339,910
Personal Strategy Balanced Portfolio, 235,431 shares (cost \$4,344,666)	4,513,205
Mid-Cap Growth Portfolio, 24,637 shares (cost \$595,078)	629,957

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

International Stock Portfolio, 13,743 shares (cost \$186,082)	196,116
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#### Vanguard Variable Insurance Fund:

Balanced Portfolio, 34,323 shares (cost \$681,973)	790,450
Equity Index Portfolio, 9,221 shares (cost \$260,740)	328,531
High Yield Bond Portfolio, 19,626 shares (cost \$156,795)	156,812
Small Company Growth Portfolio, 21,506 shares (cost \$462,840)	462,377
Mid-Cap Index Portfolio, 23,064 shares (cost \$399,809)	486,890
REIT Index Portfolio, 38,755 shares (cost \$507,641)	522,416

**Total Assets** \$ 25,811,116

**Total Liabilities** -

**Net Assets** \$ 25,811,116

*See accompanying notes to financial statements*

\* Formerly Janus Aspen Worldwide Growth Portfolio

\*\* Formerly T Rowe Price Prime Reserve Portfolio



# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2016		
	Janus Aspen Janus 2016	Janus Aspen Enterprise 2016	Janus Aspen Forty 2016
Investment income:			
Dividends	\$ 3,962	\$ 16,259	\$ -
Expenses:			
Mortality and expense risk charges	8,961	134,487	13,318
Net investment income (loss)	(4,999)	(118,228)	(13,318)
Realized gains (loss) on investments:			
Realized net investment gain (loss)	26,146	697,974	(19,294)
Capital gain distributions received	45,545	880,239	150,070
Realized gain (loss) on investments and capital gain distributions, net	71,691	1,578,213	130,776
Unrealized appreciation (depreciation), net	(72,371)	(281,001)	(102,838)
Net increase (decrease) in net assets from operations	\$ (5,679)	\$ 1,178,984	\$ 14,620

	For the Year Ended December 31, 2016	
	Janus Aspen Global Research* 2016	Janus Aspen Balanced 2016
Investment income:		
Dividends	\$ 3,702	\$ 22,700
Expenses:		
Mortality and expense risk charges	4,102	12,449
Net investment income (loss)	(400)	10,251
Realized gains (loss) on investments:		
Realized net investment gain (loss)	4,386	21,565
Capital gain distributions received	-	14,831
Realized gain (loss) on investments and capital gain distributions, net	4,386	36,396
Unrealized appreciation (depreciation), net	(1,314)	(13,351)
Net increase (decrease) in net assets from operations	\$ 2,672	\$ 33,296

See accompanying notes to financial statements

\*Formerly Janus Aspen Worldwide Growth Portfolio

# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2016		
	T. Rowe Price Government Money**	T. Rowe Price Limited Term Bond	T. Rowe Price Equity Income
	2016	2016	2016
Investment income:			
Dividends	\$ -	\$ 13,541	\$ 29,628
Expenses:			
Mortality and expense risk charges	9,316	11,996	15,487
Net investment income (loss)	(9,316)	1,545	14,141
Realized gains (loss) on investments:			
Realized net investment gain (loss)	-	454	30,977
Capital gain distributions received	-	-	123,892
Realized gain (loss) on investments and capital gain distributions, net	-	454	154,869
Unrealized appreciation (depreciation), net	-	(198)	42,963
Net increase (decrease) in net assets from operations	\$ (9,316)	\$ 1,801	\$ 211,973

	For the Year Ended December 31, 2016		
	T. Rowe Price Personal Strategy Balanced	T. Rowe Price Mid-Cap Growth	T. Rowe Price International Stock
	2016	2016	2016
Investment income:			
Dividends	\$ 75,235	\$ -	\$ 2,096
Expenses:			
Mortality and expense risk charges	54,734	7,956	2,359
Net investment income (loss)	20,501	(7,956)	(263)
Realized gains (loss) on investments:			
Realized net investment gain (loss)	11,697	56,197	2,024
Capital gain distributions received	100,966	40,812	7,204
Realized gain (loss) on investments and capital gain distributions, net	112,663	97,009	9,228
Unrealized appreciation (depreciation), net	93,427	(55,872)	(7,209)
Net increase (decrease) in net assets from operations	\$ 226,591	\$ 33,181	\$ 1,756

See accompanying notes to financial statements

\*\*Formerly T Rowe Price Prime Reserve Portfolio

# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2016		
	Vanguard Balanced 2016	Vanguard Equity Index 2016	Vanguard High Yield Bond 2016
Investment income:			
Dividends	\$ 19,021	\$ 7,247	\$ 8,164
Expenses:			
Mortality and expense risk charges	9,005	3,792	1,847
Net investment income (loss)	10,016	3,455	6,317
Realized gains (loss) on investments:			
Realized net investment gain (loss)	21,791	11,257	(843)
Capital gain distributions received	33,287	5,920	-
Realized gain (loss) on investments and capital gain distributions, net	55,078	17,177	(843)
Unrealized appreciation (depreciation), net	4,734	11,071	9,141
Net increase (decrease) in net assets from operations	\$ 69,828	\$ 31,703	\$ 14,615

	For the Year Ended December 31, 2016		
	Vanguard Small Company Growth 2016	Vanguard Mid-Cap Index 2016	Vanguard REIT Index 2016
Investment income:			
Dividends	\$ 1,463	\$ 5,965	\$ 11,696
Expenses:			
Mortality and expense risk charges	5,067	5,381	5,886
Net investment income (loss)	(3,604)	584	5,810
Realized gains (loss) on investments:			
Realized net investment gain (loss)	4,060	16,114	16,646
Capital gain distributions received	37,140	29,663	31,034
Realized gain (loss) on investments and capital gain distributions, net	41,200	45,777	47,680
Unrealized appreciation (depreciation), net	16,924	(3,459)	(28,655)
Net increase (decrease) in net assets from operations	\$ 54,520	\$ 42,902	\$ 24,835

See accompanying notes to financial statements

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**STATEMENTS OF CHANGES IN NET ASSETS**

For the Years Ended December 31

	Janus Aspen Janus		Janus Aspen Enterprise		Janus Aspen Forty	
	2016	2015	2016	2015	2016	2015
Increase (decrease) in net assets from operations:						
Net investment income (loss)	\$ (4,999)	\$ (4,566)	\$ (118,228)	\$ (68,955)	\$ (13,318)	\$ (13,565)
Realized gains (losses) on investments	71,691	169,764	1,578,213	2,957,033	130,776	265,506
Unrealized appreciation (depreciation), net	(72,371)	(131,781)	(281,001)	(2,510,527)	(102,838)	(133,897)
Net increase (decrease) in net assets from operations	(5,679)	33,417	1,178,984	377,551	14,620	118,044
Contract transactions:						
Purchase payments	11,037	12,096	38,032	71,005	58,308	9,374
Transfers between subaccounts, net	567	(11,056)	(79,337)	(160)	147	(25,514)
Withdrawals	(87,264)	(42,872)	(736,757)	(2,059,913)	(68,269)	(112,145)
Contract maintenance fees	(1,296)	(1,365)	(12,308)	(13,886)	(1,334)	(1,475)
Net increase (decrease) in net assets derived from contract transactions	(76,956)	(43,197)	(790,370)	(2,002,954)	(11,148)	(129,760)
Total increase (decrease) in net assets	(82,635)	(9,780)	388,614	(1,625,403)	3,472	(11,716)
Net assets at beginning of year	779,509	789,289	11,090,572	12,715,975	1,100,587	1,112,303
Net assets at end of year	\$ 696,874	\$ 779,509	\$ 11,479,186	\$ 11,090,572	\$ 1,104,059	\$ 1,100,587

For the Years Ended December 31

	Janus Aspen Global Research*		Janus Aspen Balanced	
	2016	2015	2016	2015
Increase (decrease) in net assets from operations:				
Net investment income (loss)	\$ (400)	\$ (2,357)	\$ 10,251	\$ 4,145
Realized gains (losses) on investments	4,386	21,622	36,396	65,452
Unrealized appreciation (depreciation), net	(1,314)	(27,991)	(13,351)	(72,176)
Net increase (decrease) in net assets from operations	2,672	(8,726)	33,296	(2,579)
Contract transactions:				
Purchase payments	5,298	3,692	8,211	11,793
Transfers between subaccounts, net	3,263	(15,571)	427	30,212
Withdrawals	(42,286)	(62,242)	(91,373)	(246,002)
Contract maintenance fees	(465)	(556)	(1,632)	(1,899)
Net increase (decrease) in net assets derived from contract transactions	(34,190)	(74,677)	(84,367)	(205,896)
Total increase (decrease) in net assets	(31,518)	(83,403)	(51,071)	(208,475)
Net assets at beginning of year	363,262	446,665	1,092,642	1,301,117
Net assets at end of year	\$ 331,744	\$ 363,262	\$ 1,041,571	\$ 1,092,642

See accompanying notes to financial statements

\*Formerly Janus Aspen Worldwide Growth Portfolio

# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENTS OF CHANGES IN NET ASSETS

	For the Years Ended December 31					
	T. Rowe Price Government Money**		T. Rowe Price Limited Term Bond		T. Rowe Price Equity Income	
	2016	2015	2016	2015	2016	2015
Increase (decrease) in net assets from operations:						
Net investment income (loss)	\$ (9,316)	\$ (11,399)	\$ 1,545	\$ (966)	\$ 14,141	\$ 8,467
Realized gains (losses) on investments	-	80	454	(6,698)	154,869	46,796
Unrealized appreciation (depreciation), net	-	-	(198)	(2,944)	42,963	(171,295)
Net increase (decrease) in net assets from operations	(9,316)	(11,319)	1,801	(10,608)	211,973	(116,032)
Contract transactions:						
Purchase payments	3,275	1,150	16,163	14,739	12,181	14,441
Transfers between subaccounts, net	10,336	9,635	13,245	17,371	1,984	(13,095)
Withdrawals	(41,775)	(263,113)	(133,032)	(508,522)	(182,232)	(108,746)
Contract maintenance fees	(784)	(1,184)	(1,429)	(1,686)	(1,687)	(1,841)
Net increase (decrease) in net assets derived from contract transactions	(28,948)	(253,512)	(105,053)	(478,098)	(169,754)	(109,241)
Total increase (decrease) in net assets	(38,264)	(264,831)	(103,252)	(488,706)	42,219	(225,273)
Net assets at beginning of year	801,833	1,066,664	1,070,701	1,559,407	1,297,691	1,522,964
Net assets at end of year	\$ 763,569	\$ 801,833	\$ 967,449	\$ 1,070,701	\$ 1,339,910	\$ 1,297,691

	For the Years Ended December 31					
	T. Rowe Price Personal Strategy Balanced		T. Rowe Price Mid-Cap Growth		T. Rowe Price International Stock	
	2016	2015	2016	2015	2016	2015
Increase (decrease) in net assets from operations:						
Net investment income (loss)	\$ 20,501	\$ 28,402	\$ (7,956)	\$ (9,105)	\$ (263)	\$ (691)
Realized gains (losses) on investments	112,663	421,404	97,009	112,529	9,228	11,398
Unrealized appreciation (depreciation), net	93,427	(503,301)	(55,872)	(63,700)	(7,209)	(13,413)
Net increase (decrease) in net assets from operations	226,591	(53,495)	33,181	39,724	1,756	(2,706)
Contract transactions:						
Purchase payments	14,209	28,722	7,086	10,700	3,416	3,875
Transfers between subaccounts, net	(974)	(22,310)	(96,981)	(14,138)	1,489	1,398
Withdrawals	(513,941)	(1,229,597)	(28,319)	(61,809)	(10,236)	(28,172)
Contract maintenance fees	(4,300)	(4,785)	(704)	(758)	(316)	(320)
Net increase (decrease) in net assets derived from contract transactions	(505,006)	(1,227,970)	(118,918)	(66,005)	(5,647)	(23,219)
Total increase (decrease) in net assets	(278,415)	(1,281,465)	(85,737)	(26,281)	(3,891)	(25,925)
Net assets at beginning of year	4,791,620	6,073,085	715,694	741,975	200,007	225,932
Net assets at end of year	\$ 4,513,205	\$ 4,791,620	\$ 629,957	\$ 715,694	\$ 196,116	\$ 200,007

See accompanying notes to financial statements

\*\*Formerly T Rowe Price Prime Reserve Portfolio

# SENTRY LIFE INSURANCE COMPANY

## Sentry Variable Account II

### STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended December 31						
	Vanguard Balanced		Vanguard Equity Index		Vanguard High Yield Bond	
	2016	2015	2016	2015	2016	2015
Increase (decrease) in net assets from operations:						
Net investment income (loss)	\$ 10,016	\$ 9,543	\$ 3,455	\$ 3,160	\$ 6,317	\$ 14,333
Realized gains (losses) on investments	55,078	57,211	17,177	77,095	(843)	(739)
Unrealized appreciation (depreciation), net	4,734	(74,928)	11,071	(78,104)	9,141	(15,642)
Net increase (decrease) in net assets from operations	69,828	(8,174)	31,703	2,151	14,615	(2,048)
Contract transactions:						
Purchase payments	11,155	8,398	1,320	1,320	972	1,720
Transfers between subaccounts, net	25,497	(4,432)	(450)	7,514	2,798	16,030
Withdrawals	(61,300)	(71,122)	(23,184)	(192,992)	(13,412)	(199,615)
Contract maintenance fees	(608)	(689)	(346)	(427)	(242)	(312)
Net increase (decrease) in net assets derived from contract transactions	(25,256)	(67,845)	(22,660)	(184,585)	(9,884)	(182,177)
Total increase (decrease) in net assets	44,572	(76,019)	9,043	(182,434)	4,731	(184,225)
Net assets at beginning of year	745,878	821,897	319,488	501,922	152,081	336,306
Net assets at end of year	\$ 790,450	\$ 745,878	\$ 328,531	\$ 319,488	\$ 156,812	\$ 152,081

For the Years Ended December 31						
	Vanguard Small Company Growth		Vanguard Mid-Cap Index		Vanguard REIT Index	
	2016	2015	2016	2015	2016	2015
Increase (decrease) in net assets from operations:						
Net investment income (loss)	\$ (3,604)	\$ (3,914)	\$ 584	\$ 328	\$ 5,810	\$ 2,566
Realized gains (losses) on investments	41,200	139,679	45,777	75,824	47,680	45,886
Unrealized appreciation (depreciation), net	16,924	(145,596)	(3,459)	(85,141)	(28,655)	(43,866)
Net increase (decrease) in net assets from operations	54,520	(9,831)	42,902	(8,989)	24,835	4,586
Contract transactions:						
Purchase payments	3,134	5,867	9,495	8,102	11,397	7,897
Transfers between subaccounts, net	12,481	(16,311)	29,270	11,471	76,190	28,956
Withdrawals	(32,327)	(138,701)	(16,910)	(85,919)	(23,072)	(42,566)
Contract maintenance fees	(457)	(525)	(415)	(549)	(395)	(453)
Net increase (decrease) in net assets derived from contract transactions	(17,169)	(149,670)	21,440	(66,895)	64,120	(6,166)
Total increase (decrease) in net assets	37,351	(159,501)	64,342	(75,884)	88,955	(1,580)
Net assets at beginning of year	425,026	584,527	422,548	498,432	433,461	435,041
Net assets at end of year	\$ 462,377	\$ 425,026	\$ 486,890	\$ 422,548	\$ 522,416	\$ 433,461

See accompanying notes to financial statements

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

1. **Organization**

The Sentry Variable Account II (the Variable Account) is a segregated investment account of the Sentry Life Insurance Company (the Company) and is registered with the Securities and Exchange Commission (SEC) as a unit investment trust pursuant to the provisions of the Investment Company Act of 1940. The Variable Account is an accounting entity wherein all segregated account transactions are reflected.

The Variable Account was established by the Company on August 2, 1983 in support of variable annuity contracts, and commenced operations on May 3, 1984. The Company discontinued new sales of variable annuity contracts on December 1, 2004. Management of the Company has determined that there is no justification for substantial doubt regarding the entity's ability to continue as a going concern.

The assets of each subaccount of the Variable Account are invested in shares of corresponding portfolios of Janus Aspen Series, T. Rowe Price Fixed Income Series, Inc., T. Rowe Price Equity Series, Inc., T. Rowe Price International Series, Inc., and Vanguard Variable Insurance Fund (collectively, the Funds) at each portfolio's net asset value in accordance with the selection made by contract owners.

The Funds are diversified open-end investment management companies registered under the Investment Company Act of 1940. A copy of the Funds' annual reports is included in the Variable Account's Annual Report.

The Variable (Life) Account meets the definition of an investment company under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 946 and is following the accounting and reporting guidance under that Topic.

2. **Significant Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Valuation of Investments**

Investments in shares of each of the Funds are valued on the closing net asset value per share at December 31, 2016. The Funds value their investment securities at fair value.

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

**Securities Transactions and Investment Income**

Transactions in shares of the Funds are recorded on the trade date if received by 3:00 p.m. central standard time (the date the order to buy and sell is executed). Dividend income is recorded on the ex-dividend date. The cost of Fund shares sold and the corresponding investment gains and losses are determined on a specific identification basis.

**Federal Income Taxes**

The Company is taxed as a life insurance company under the provisions of the Internal Revenue Code. The operations of the Variable Account are part of the total operations of the Company and are not taxed as a separate entity.

Under Federal income tax law, net investment income and net realized investment gains of the Variable Account which are applied to increase net assets are not taxed.

**Subsequent Events**

In connection with the preparation of the financial statements, the Company evaluated subsequent events after the financial statement date of December 31, 2016 through February 24, 2017, the date the financial statements were issued. No significant subsequent events were identified.



**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

3. **Purchases and Sales of Securities**

In 2016, purchases and proceeds on sales of the Funds' shares were as follows:

	<b>Purchases</b>	<b>Proceeds on Sales</b>
Janus Aspen Janus Portfolio	\$ 64,549	\$ 100,959
Janus Aspen Enterprise Portfolio	937,744	966,102
Janus Aspen Forty Portfolio	214,649	89,045
* Janus Aspen Global Research Portfolio	12,263	46,854
Janus Aspen Balanced Portfolio	47,678	106,963
** T. Rowe Price Government Money Portfolio	14,365	52,628
T. Rowe Price Limited Term Bond Portfolio	45,040	148,549
T. Rowe Price Equity Income Portfolio	168,071	199,792
T. Rowe Price Personal Strategy Balanced Portfolio	194,854	578,393
T. Rowe Price Mid-Cap Growth Portfolio	49,303	135,364
T. Rowe Price International Stock Portfolio	14,204	12,910
Vanguard Balanced Portfolio	92,331	74,284
Vanguard Equity Index Portfolio	15,026	28,310
Vanguard High Yield Bond Portfolio	12,196	15,763
Vanguard Small Company Growth Portfolio	54,657	38,290
Vanguard Mid-Cap Index Portfolio	78,633	26,946
Vanguard REIT Index Portfolio	167,875	66,911
Total	<u>\$ 2,183,438</u>	<u>\$ 2,688,063</u>

In 2015, purchases and proceeds on sales of the Funds' shares were as follows:

	<b>Purchases</b>	<b>Proceeds on Sales</b>
Janus Aspen Janus Portfolio	\$ 163,196	\$ 65,144
Janus Aspen Enterprise Portfolio	1,516,154	2,241,125
Janus Aspen Forty Portfolio	238,206	159,815
* Janus Aspen Global Research Portfolio	9,741	86,774
Janus Aspen Balanced Portfolio	110,032	273,236
T. Rowe Price Prime Reserve Portfolio	21,839	286,671
T. Rowe Price Limited Term Bond Portfolio	61,405	540,470
T. Rowe Price Equity Income Portfolio	85,948	157,553
T. Rowe Price Personal Strategy Balanced Portfolio	526,105	1,379,827
T. Rowe Price Mid-Cap Growth Portfolio	112,880	91,837
T. Rowe Price International Stock Portfolio	11,245	31,184
Vanguard Balanced Portfolio	78,888	99,909
Vanguard Equity Index Portfolio	45,419	212,093
Vanguard High Yield Bond Portfolio	38,433	205,738
Vanguard Small Company Growth Portfolio	74,559	162,023
Vanguard Mid-Cap Index Portfolio	56,060	96,065
Vanguard REIT Index Portfolio	133,457	122,538
Total	<u>\$ 3,283,567</u>	<u>\$ 6,212,002</u>

\* Formerly Janus Aspen Worldwide Growth Portfolio

\*\* Formerly T Rowe Price Prime Reserve Portfolio

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

**4. Expenses and Related Party Transactions**

A mortality and expense risk premium is deducted by the Company from the Variable Account on a daily basis which is equal, on an annual basis, to 1.20% (0.80% mortality and 0.40% expense risk) of the daily net asset value of the Variable Account. This mortality and expense risk premium compensates the Company for assuming these risks under the variable annuity contract.

The Company deducts, on the contract anniversary date, an annual contract maintenance charge of \$30, per contract holder, from the contract value by canceling accumulation units. If the contract is surrendered for its full surrender value, on other than the contract anniversary, the contract maintenance charge will be deducted at the time of such surrender. This charge reimburses the Company for administrative expenses relating to maintenance of the contract.

There are no deductions made from purchase payments for sales charges at the time of purchase. However, a contingent deferred sales charge may be deducted in the event of a surrender to reimburse the Company for expenses incurred which are related to contract sales. Contingent deferred sales charges apply to each purchase payment and are graded from 6% during the first contract year to 0% in the seventh contract year.

Any premium tax payable to a governmental entity as a result of the existence of the contracts or the Variable Account will be charged against the contract value. Premium taxes up to 3.0% are currently imposed by certain states. Some states assess their premium taxes at the time purchase payments are made; others assess their premium taxes at the time of annuitization. In the event contracts would be issued in states assessing their premium taxes at the time purchase payments are made, the Company currently intends to advance such premium taxes and deduct the premium taxes from a contract owner's contract value at the time of annuitization or surrender.

Sentry Equity Services, Inc., a related party, acts as the underwriter for the contract.

**5. Fair Value Measurement**

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 Variable Account categorized its financial instruments into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

The Company categorizes financial assets recorded at fair value as follows:

Level 1 - Unadjusted quoted prices accessible in active markets for identical assets at the measurement date. The assets utilizing Level 1 valuations represent investments in publicly-traded registered mutual funds with quoted market prices.

Level 2 - Unadjusted quoted prices for similar assets in active markets or inputs (other than quoted prices) that are observable or that are derived principally from or corroborated by observable market data through correlation or other means. The assets utilizing Level 2 valuations represent investments in privately-traded registered mutual funds only offered through insurance products. These funds have no unfunded commitments or restrictions and the Variable Account always has the ability to redeem its interest in the funds with the investee at NAV daily.

Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Variable Account Investments	-	\$ 25,811,116	-	\$ 25,811,116

The Variable Account only invests in funds with fair value measurements in Level 2 and thus did not have any assets or liabilities reported at fair value on a nonrecurring basis.

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

**6. Changes in Units Outstanding**

The changes in units outstanding for the year ended December 31, 2016 were as follows:

	<b>Units Issued</b>	<b>Units Redeemed</b>	<b>Net Increase (Decrease)</b>
Janus Aspen Janus Portfolio	1,369	8,216	(6,847)
Janus Aspen Enterprise Portfolio	398	7,919	(7,521)
Janus Aspen Forty Portfolio	4,092	4,518	(426)
* Janus Aspen Global Research Portfolio	1,012	5,032	(4,020)
Janus Aspen Balanced Portfolio	495	4,627	(4,132)
** T. Rowe Price Government Money Portfolio	712	2,140	(1,428)
T. Rowe Price Limited Term Bond Portfolio	854	3,716	(2,862)
T. Rowe Price Equity Income Portfolio	652	8,058	(7,406)
T. Rowe Price Personal Strategy Balanced Portfolio	294	8,341	(8,047)
T. Rowe Price Mid-Cap Growth Portfolio	257	3,719	(3,462)
T. Rowe Price International Stock Portfolio	457	974	(517)
Vanguard Balanced Portfolio	1,711	2,830	(1,119)
Vanguard Equity Index Portfolio	89	1,152	(1,063)
Vanguard High Yield Bond Portfolio	196	694	(498)
Vanguard Small Company Growth Portfolio	613	1,342	(729)
Vanguard Mid-Cap Index Portfolio	1,550	761	789
Vanguard REIT Index Portfolio	3,435	1,742	1,693

The changes in units outstanding for the year ended December 31, 2015 were as follows:

	<b>Units Issued</b>	<b>Units Redeemed</b>	<b>Net Increase (Decrease)</b>
Janus Aspen Janus Portfolio	1,087	4,788	(3,701)
Janus Aspen Enterprise Portfolio	883	20,676	(19,793)
Janus Aspen Forty Portfolio	986	8,771	(7,785)
* Janus Aspen Global Research Portfolio	815	8,771	(7,956)
Janus Aspen Balanced Portfolio	2,604	12,379	(9,775)
T. Rowe Price Prime Reserve Portfolio	1,066	13,465	(12,399)
T. Rowe Price Limited Term Bond Portfolio	1,248	14,215	(12,967)
T. Rowe Price Equity Income Portfolio	1,388	6,198	(4,810)
T. Rowe Price Personal Strategy Balanced Portfolio	1,310	20,677	(19,367)
T. Rowe Price Mid-Cap Growth Portfolio	496	2,456	(1,960)
T. Rowe Price International Stock Portfolio	455	2,389	(1,934)
Vanguard Balanced Portfolio	992	3,954	(2,962)
Vanguard Equity Index Portfolio	1,066	9,845	(8,779)
Vanguard High Yield Bond Portfolio	1,036	10,148	(9,112)
Vanguard Small Company Growth Portfolio	248	5,797	(5,549)
Vanguard Mid-Cap Index Portfolio	848	3,221	(2,373)
Vanguard REIT Index Portfolio	3,595	3,779	(184)

\* Formerly Janus Aspen Worldwide Growth Portfolio

\*\* Formerly T Rowe Price Prime Reserve Portfolio

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

**7. Financial Highlights**

A summary of unit values, units outstanding and certain financial performance information for each subaccount for variable annuity contracts and the expense ratios, excluding expenses of the underlying funds, for the year ended December 31, 2016 is as follows:

	<u>Units</u>	<u>Net Assets</u>		<u>Expenses as a % of Average Net Assets #</u>		<u>Income as a % of Average Net Assets</u>		<u>Total Return</u>	
		<u>Unit Value</u>	<u>(000's)</u>						
Janus Aspen Janus Portfolio	61,790	\$ 11.28	\$ 697	1.20	%	0.53	%	(0.69)	%
Janus Aspen Enterprise Portfolio	103,368	111.05	11,479	1.20		0.14		11.03	
Janus Aspen Forty Portfolio	64,112	17.22	1,104	1.20		-		0.98	
* Janus Aspen Global Research Portfolio	38,513	8.61	332	1.20		1.09		0.85	
Janus Aspen Balanced Portfolio	49,036	21.24	1,042	1.20		2.19		3.36	
** T. Rowe Price Government Money Portfolio	37,993	20.10	764	1.20		-		(1.19)	
T. Rowe Price Limited Term Bond Portfolio	26,371	36.69	967	1.20		1.36		0.16	
T. Rowe Price Equity Income Portfolio	52,703	25.42	1,340	1.20		2.29		17.76	
T. Rowe Price Personal Strategy Balanced Portfolio	68,904	65.50	4,513	1.20		1.65		5.19	
T. Rowe Price Mid-Cap Growth Portfolio	17,946	35.10	630	1.20		-		5.00	
T. Rowe Price International Stock Portfolio	17,726	11.06	196	1.20		1.06		0.91	
Vanguard Balanced Portfolio	31,890	24.79	790	1.20		2.53		9.70	
Vanguard Equity Index Portfolio	14,289	22.99	329	1.20		2.28		10.49	
Vanguard High Yield Bond Portfolio	7,422	21.13	157	1.20		5.30		10.03	
Vanguard Small Company Growth Portfolio	16,540	27.95	462	1.20		0.35		13.58	
Vanguard Mid-Cap Index Portfolio	16,750	29.07	487	1.20		1.32		9.80	
Vanguard REIT Index Portfolio	15,167	34.45	522	1.20		2.36		7.07	

A summary of unit values, units outstanding and certain financial performance information for each subaccount for variable annuity contracts and the expense ratios, excluding expenses of the underlying funds, for the year ended December 31, 2015 is as follows:

	<u>Units</u>	<u>Net Assets</u>		<u>Expenses as a % of Average Net Assets #</u>		<u>Income as a % of Average Net Assets</u>		<u>Total Return</u>	
		<u>Unit Value</u>	<u>(000's)</u>						
Janus Aspen Janus Portfolio	68,637	\$ 11.36	\$ 780	1.20	%	0.63	%	4.09	%
Janus Aspen Enterprise Portfolio	110,889	100.02	11,091	1.20		0.65		2.79	
Janus Aspen Forty Portfolio	64,538	17.05	1,101	1.20		-		10.88	
* Janus Aspen Global Research Portfolio	42,533	8.54	363	1.20		0.63		(3.46)	
Janus Aspen Balanced Portfolio	53,168	20.55	1,093	1.20		1.57		(0.58)	
T. Rowe Price Prime Reserve Portfolio	39,421	20.34	802	1.20		-		(1.20)	
T. Rowe Price Limited Term Bond Portfolio	29,233	36.63	1,071	1.20		1.15		(0.89)	
T. Rowe Price Equity Income Portfolio	60,109	21.59	1,298	1.20		1.82		(7.97)	
T. Rowe Price Personal Strategy Balanced Portfolio	76,951	62.27	4,792	1.20		1.71		(1.24)	
T. Rowe Price Mid-Cap Growth Portfolio	21,408	33.43	716	1.20		-		5.29	
T. Rowe Price International Stock Portfolio	18,243	10.96	200	1.20		0.90		(2.09)	
Vanguard Balanced Portfolio	33,009	22.60	746	1.20		2.45		(1.11)	
Vanguard Equity Index Portfolio	15,352	20.81	319	1.20		2.00		0.05	
Vanguard High Yield Bond Portfolio	7,920	19.20	152	1.20		6.69		(2.75)	
Vanguard Small Company Growth Portfolio	17,269	24.61	425	1.20		0.42		(3.92)	
Vanguard Mid-Cap Index Portfolio	15,961	26.47	423	1.20		1.28		(2.62)	
Vanguard REIT Index Portfolio	13,474	32.17	433	1.20		1.82		1.00	

# Excluding the effect of the expenses of the underlying fund portfolios and administrative fees charged directly to contract holder accounts.

\* Formerly Janus Aspen Worldwide Growth Portfolio

\*\* Formerly T Rowe Price Prime Reserve Portfolio

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

December 31, 2016 and 2015

A summary of unit values, units outstanding and certain financial performance information for each subaccount for variable annuity contracts and the expense ratios, excluding expenses of the underlying funds, for the year ended December 31, 2014 is as follows:

	<u>Units</u>	<u>Net Assets</u>		<u>Expenses</u> <u>as a % of</u> <u>Average</u> <u>Net</u> <u>Assets #</u>	<u>Income</u> <u>as a % of</u> <u>Average</u> <u>Net</u> <u>Assets</u>	<u>Total</u> <u>Return</u>
		<u>Unit</u> <u>Value</u>	<u>(000's)</u>			
Janus Aspen Janus Portfolio	72,338	\$ 10.91	\$ 789	1.20 %	0.36 %	11.66 %
Janus Aspen Enterprise Portfolio	130,682	97.30	12,716	1.20	0.16	11.19
Janus Aspen Forty Portfolio	72,323	15.38	1,112	1.20	0.16	7.44
* Janus Aspen Global Research Portfolio	50,489	8.85	447	1.20	1.09	6.17
Janus Aspen Balanced Portfolio	62,943	20.67	1,301	1.20	1.75	7.22
T. Rowe Price Prime Reserve Portfolio	51,820	20.58	1,067	1.20	-	(1.19)
T. Rowe Price Limited Term Bond Portfolio	42,200	36.95	1,559	1.20	1.27	(0.56)
T. Rowe Price Equity Income Portfolio	64,919	23.46	1,523	1.20	1.74	6.10
T. Rowe Price Personal Strategy Balanced Portfolio	96,318	63.05	6,073	1.20	1.63	3.95
T. Rowe Price Mid-Cap Growth Portfolio	23,368	31.75	742	1.20	-	11.77
T. Rowe Price International Stock Portfolio	20,177	11.20	226	1.20	1.05	(2.41)
Vanguard Balanced Portfolio	35,971	22.85	822	1.20	2.39	8.54
Vanguard Equity Index Portfolio	24,131	20.80	502	1.20	1.88	12.16
Vanguard High Yield Bond Portfolio	17,032	19.75	336	1.20	3.34	3.16
Vanguard Small Company Growth Portfolio	22,818	25.62	585	1.20	0.31	2.15
Vanguard Mid-Cap Index Portfolio	18,334	27.19	498	1.20	0.92	12.25
Vanguard REIT Index Portfolio	13,658	31.85	435	1.20	3.31	28.57

A summary of unit values, units outstanding and certain financial performance information for each subaccount for variable annuity contracts and the expense ratios, excluding expenses of the underlying funds, for the year ended December 31, 2013 is as follows:

	<u>Units</u>	<u>Net Assets</u>		<u>Expenses</u> <u>as a % of</u> <u>Average</u> <u>Net</u> <u>Assets #</u>	<u>Income</u> <u>as a % of</u> <u>Average</u> <u>Net</u> <u>Assets</u>	<u>Total</u> <u>Return</u>
		<u>Unit</u> <u>Value</u>	<u>(000's)</u>			
Janus Aspen Janus Portfolio	76,175	\$ 9.77	\$ 744	1.20 %	0.77 %	28.79 %
Janus Aspen Enterprise Portfolio	152,103	87.51	13,311	1.20	0.50	30.81
Janus Aspen Forty Portfolio	75,281	14.31	1,078	1.20	0.72	29.67
* Janus Aspen Global Research Portfolio	54,452	8.33	454	1.20	1.22	26.90
Janus Aspen Balanced Portfolio	71,502	19.28	1,379	1.20	1.51	18.73
T. Rowe Price Prime Reserve Portfolio	54,229	20.83	1,130	1.20	-	(1.19)
T. Rowe Price Limited Term Bond Portfolio	50,762	37.16	1,886	1.20	1.55	(1.07)
T. Rowe Price Equity Income Portfolio	66,929	22.11	1,480	1.20	1.52	28.18
T. Rowe Price Personal Strategy Balanced Portfolio	108,680	60.66	6,592	1.20	1.48	16.53
T. Rowe Price Mid-Cap Growth Portfolio	24,133	28.41	686	1.20	-	35.08
T. Rowe Price International Stock Portfolio	21,744	11.47	249	1.20	0.87	12.69
Vanguard Balanced Portfolio	42,027	21.05	885	1.20	2.46	18.46
Vanguard Equity Index Portfolio	29,473	18.54	547	1.20	1.73	30.61
Vanguard High Yield Bond Portfolio	9,826	19.14	188	1.20	4.59	3.10
Vanguard Small Company Growth Portfolio	26,231	25.08	658	1.20	0.72	44.82
Vanguard Mid-Cap Index Portfolio	19,790	24.22	479	1.20	1.12	33.33
Vanguard REIT Index Portfolio	15,534	24.77	385	1.20	2.51	1.10

# Excluding the effect of the expenses of the underlying fund portfolios and administrative fees charged directly to contract holder accounts.

\* Formerly Janus Aspen Worldwide Growth Portfolio

**SENTRY LIFE INSURANCE COMPANY**  
**Sentry Variable Account II**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
December 31, 2016 and 2015

A summary of unit values, units outstanding and certain financial performance information for each subaccount for variable annuity contracts and the expense ratios, excluding expenses of the underlying funds, for the year ended December 31, 2012 is as follows:

	<b>Net Assets</b>			<b>Expenses as a % of Average Net Assets #</b>	<b>Income as a % of Average Net Assets</b>	<b>Total Return</b>
	<b>Units</b>	<b>Unit Value</b>	<b>(000's)</b>			
Janus Aspen Janus Portfolio	87,981	\$ 7.59	\$ 668	1.20 %	0.55 %	17.17 %
Janus Aspen Enterprise Portfolio	165,029	66.90	11,041	1.20	-	15.89
Janus Aspen Forty Portfolio	86,510	11.04	955	1.20	0.70	22.68
Janus Aspen Worldwide Growth Portfolio	56,236	6.57	369	1.20	0.82	18.65
Janus Aspen Balanced Portfolio	77,738	16.24	1,262	1.20	2.84	12.26
T. Rowe Price Prime Reserve Portfolio	76,192	21.08	1,606	1.20	-	(1.20)
T. Rowe Price Limited Term Bond Portfolio	54,316	37.56	2,040	1.20	2.04	1.24
T. Rowe Price Equity Income Portfolio	76,039	17.25	1,312	1.20	2.14	15.75
T. Rowe Price Personal Strategy Balanced Portfolio	127,189	52.05	6,621	1.20	1.95	13.77
T. Rowe Price Mid-Cap Growth Portfolio	30,243	21.03	636	1.20	-	12.54
T. Rowe Price International Stock Portfolio	21,233	10.18	216	1.20	1.04	17.03
Vanguard Balanced Portfolio	42,024	17.77	747	1.20	2.67	11.22
Vanguard Equity Index Portfolio	26,852	14.20	381	1.20	1.91	14.48
Vanguard High Yield Bond Portfolio	9,938	18.56	185	1.20	5.75	12.93
Vanguard Small Company Growth Portfolio	30,573	17.32	529	1.20	0.23	13.29
Vanguard Mid-Cap Index Portfolio	23,865	18.16	433	1.20	1.12	14.43
Vanguard REIT Index Portfolio	24,704	24.50	605	1.20	1.90	16.06

# Excluding the effect of the expenses of the underlying fund portfolios and administrative fees charged directly to contract holder accounts.

**8. Diversification Requirements**

Under the provisions of Section 817(h) of the Internal Revenue Code of 1986 (the Code), as amended, a variable contract, other than a contract issued in connection with certain types of employee benefit plans, will not be treated as a variable contract for federal tax purposes for any period for which the investments of the segregated asset account on which the contract is based are not adequately diversified. Each subaccount is required to satisfy the requirements of Section 817(h). The Code provides that the "adequately diversified" requirement may be met if the underlying investments satisfy either the statutory safe harbor test or diversification requirements set forth in regulations issued by the Secretary of the Treasury.

The Secretary of the Treasury has issued regulations under Section 817(h) of the Code. The Variable Account intends that each of the subaccounts shall comply with the diversification requirements and, in the event of any failure to comply, will take immediate corrective action to assure compliance.

# Janus Aspen Balanced Portfolio

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Janus Aspen Series

## HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings



**JANUS®**



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# Janus Aspen Balanced Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe a dynamic approach to asset allocation that leverages our bottom-up, fundamental equity and fixed income research will allow us to outperform our peers over time. Our integrated equity and fixed income research team seeks an optimal balance of asset class opportunities across market cycles.



Jeremiah Buckley  
co-portfolio manager

Marc Pinto  
co-portfolio manager

Mayur Saigal  
co-portfolio manager

Darrell Watters  
co-portfolio manager

## PERFORMANCE OVERVIEW

Janus Aspen Balanced Portfolio's Institutional Shares and Service Shares returned 4.60% and 4.32%, respectively, for the 12-month period ended December 31, 2016, compared with 7.84% for the Balanced Index, an internally-calculated benchmark that combines the total returns from the S&P 500 Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%). The S&P 500 Index returned 11.96% and the Bloomberg Barclays U.S. Aggregate Bond Index returned 2.65%.

## INVESTMENT ENVIRONMENT

The year began with concerns over sluggish economic growth and the possibility of recession weighing heavily on global markets. Slower-than-expected growth in China, the implications of negative interest rates and weakness in commodities-related sectors also dragged markets down through early February. However, a more optimistic outlook was in favor by April. Risk assets, as well as rates, were rallying and crude oil prices had reset in a higher trading band. Markets hit a few road bumps in June with weak U.S. employment data bringing the health of the U.S. economy back into question and UK voters opting to leave the European Union. Yet credit spreads and U.S. stocks quickly recovered, and several equity benchmark indices began record setting trends.

Brexit, in the interim, was less damaging than investors had feared. Concern from central banks over the ineffective nature of ultra-accommodative monetary policy hinted at the need for fiscal stimulus to take the next shot at spurring global economic growth. U.S. economic data was ticking up, and signs of inflation emerged. Market participants latched on to the possibility for stronger economic growth and higher inflation, and U.S. Treasury yields began their upward march. The election of Donald Trump to the U.S. presidency added further optimism as pro-growth fiscal policies now seem within reach. Inflation expectations continued to climb. Equities and corporate credit remained in favor, while rates moved higher. In

December, the Federal Reserve (Fed) announced a widely expected 25 basis point increase to the target federal funds rate, and a projection of three additional hikes in 2017 which drove Treasury yields higher still.

Rates rose across the yield curve, with the move most pronounced in front-end yields. After widening in February, investment-grade and high-yield corporate credit spreads tightened throughout the remainder of the year.

## PERFORMANCE DISCUSSION

The Portfolio, which seeks to provide more consistent returns over time by allocating across the spectrum of fixed income and equity securities, underperformed the Balanced Index, a blended benchmark of the S&P 500 Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%). The Portfolio underperformed its primary benchmark, the S&P 500 Index, and outperformed its secondary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

Compared to the Balanced Index, the Portfolio remains overweight equities, with a 63% allocation to stocks, approximately 37% in fixed income and a small portion in cash. Our year-end allocation reflects our view that on a risk-adjusted basis, equities present more attractive opportunities relative to fixed income. The equity weighting may vary based on market conditions.

The Portfolio's equity sleeve underperformed its benchmark, the S&P 500 Index. Value equities generally outperformed growth during the year, creating a headwind for our growth tilt. At the sector level, holdings in health care and consumer discretionary detracted on a relative basis. Negative sentiment surrounded the health care sector for most of the year, largely due to political rhetoric about controlling drug prices. Late in the year, uncertainty around the impact of Mr. Trump's plans for the Affordable Care Act and other policies weighed on the sector. A zero weighting in the strong-performing energy sector also detracted. Given the persistent oil oversupply and the

## Janus Aspen Balanced Portfolio (unaudited)

likelihood of a stronger dollar, we believed stronger opportunities existed in other sectors. The energy sector benefited from rebounding crude oil prices, and our lack of exposure hampered relative performance. Contributors to relative results included stock selection in both the consumer staples and real estate sectors, and an overweight to the industrials sector. Industrials, which were unfairly impacted by early weakness in the energy sector, benefited as crude oil prices regained their footing. A proposal for increased infrastructure spending by President-elect Trump gave the sector an additional boost near year end.

Allergan was our largest detractor. The specialty pharmaceutical company initially traded down in April when the proposed merger between Allergan and Pfizer fell apart. Later in the period, weaker-than-expected earnings also weighed on the name. We continue to hold this position as we look favorably upon Allergan's strengthened balance sheet – a result of selling its generics business to Teva Pharmaceutical Industries in August. We also like the company's shareholder-friendly management team, as well as its diverse set of products, many of which are not subject to government reimbursement.

Nike was our second-largest detractor. The athletic footwear and apparel manufacturer has faced increased competition of late. It also dealt with inventory disruptions throughout the year, largely as a result of the 2016 bankruptcy filing of retailer Sports Authority. In addition, most of Nike's products are manufactured overseas and Republican-proposed tax reforms could potentially drive up the costs of those goods. Although the passage of such reforms is far from certain, it is something we will be watching closely. In the meantime, we expect Nike to work through its excess inventory in the next two quarters and, longer term, experience growth in its direct-to-consumer sales channel. We remain positive on the stock.

Bristol-Myers Squibb, after an up-and-down year, also detracted. While its shares had risen earlier in the period on positive sentiment surrounding its advanced melanoma drug, Opdivo, a disappointing clinical trial for the drug's use as a first-line treatment against a common form of lung cancer raised investor concerns over the company's perceived position as the leader in immuno-oncology. We believe these concerns are overblown, and that a combination therapy of Opdivo and another of the company's melanoma drugs, Yervoy, will together prove successful in treating lung cancer. We are also optimistic

that these drugs will successfully treat broader cancer types.

While the aforementioned stocks detracted from performance, we were pleased by the results of other companies in the Portfolio. The top two contributors, financial firms Morgan Stanley and CME Group, were beneficiaries of a steepening yield curve in the latter half of the period and Mr. Trump's proposals for a more relaxed regulatory environment. Specifically, CME Group was the largest contributor. The operator of options and futures exchanges performed well as a result of increased market volatility in the latter part of the year and heightened trading volume passing through its exchanges. That, in turn, boosted trading fees for CME. We continue to like the stock and believe the company should benefit from regulatory tailwinds, an increasingly global user base, and the digitization of its markets.

Morgan Stanley also aided performance. Climbing interest rates helped the financial services company pad net interest income. A rising equity market also helped, as the company was able to collect higher fees from its asset management business. A rebound in Fixed Income, Currency and Commodities (FICC) trading was another benefit. We continue to like the stock.

Microsoft was another top contributor. The tech giant reported earnings that beat consensus estimates multiple quarters in a row, thanks in large part to its cloud computing business, Azure. We are increasingly positive on the migration of companies to the cloud, and Microsoft is now the second-largest provider of cloud-based IT services. At the same time, Microsoft has been aggressive in reducing costs, buying back shares and paying dividends to shareholders. We remain positive on the stock.

The Portfolio's fixed income sleeve outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. We were positioned defensively in corporate credit for much of the period, wary of a fragile U.S. economy and an abundance of shareholder-friendly activity indicative of the latter stages of a credit cycle. While we continued to focus on issuers with higher quality business models and solid balance sheets throughout the year, our outlook shifted to selectively opportunistic by December's end. An improving economic picture, recovering commodity prices, and stronger-than-expected third quarter earnings supported our view, as did steady demand for U.S. corporate credit due to its comparatively higher yields versus other global fixed income asset classes. It is likely,

## Janus Aspen Balanced Portfolio (unaudited)

in our view, that the results of the U.S. election and the associated prospects for growth have further extended the credit cycle, also contributing to our modestly improved outlook. On rates, however, we have turned defensive. An actively tightening Fed in combination with rising inflationary pressures led us to reduce duration exposure coming from Treasuries. We also diversified our duration profile with the addition of Treasury Inflation-Protected Securities (TIPS). The fixed income sleeve's duration ended December at 73% of the benchmark.

Outperformance in the fixed income sleeve was led by our U.S. mortgage-backed securities (MBS). As rates rallied during the first half of the year, the prepayment-resistant nature of our positions proved beneficial. As rates rose over the latter part of the period, our positions were less exposed to the duration extension across the asset class. Within MBS, we focus on generic agency pass-throughs with higher coupons and less negative convexity than the positions in the index.

Our overweight allocation in investment-grade corporate credit also contributed positively to relative results, as did spread carry, a measure of excess income generated by the Portfolio's holdings. Investment-grade corporate credit was the strongest performing asset class in the index and benefited from significant spread tightening.

On a credit sector basis, relative contributors included technology, independent energy and brokerage, asset managers and exchanges. Outperformance in technology was due, in part, to our security selection, including positions in both Verisk Analytics and Seagate Technology. Positive sentiment surrounded Verisk Analytics upon the sale of its health care services business early in the period. The asset sale accelerated deleveraging initiatives by the data analytics firm, which was also well received by investors. Demand for personal computers and enterprise infrastructure, which had been weak during the first half of the year, picked up in the second half and benefited the cyclical technology sector, including our position in data storage company Seagate Technology.

In energy, the rebound of crude oil prices, following February's decline, benefited surviving companies – many of which have streamlined their businesses and shored up their balance sheets via asset sales. Our general overweight allocation in independent energy contributed to relative results accordingly. An overweight position in brokerage, asset managers and exchanges also benefited relative performance, as did spread carry in the sector.

Heightened market volatility supported the sector in the latter half of the year, as a rallying stock market and climbing interest rates brought increased transaction volume.

Relative credit sector detractors were led by our holdings in electric utilities. Investor demand for U.S.-based defensive business models such as electric utilities boosted the sector during the period, and our underweight allocation dragged on relative performance. Holdings in the hard-hit pharmaceuticals sector also weighed on relative results, as did security selection in midstream energy. In midstream energy, our security selection did not keep pace with the broader sector as it rallied with the rising price of crude oil. Specifically our position in NGL Energy Partners LP detracted from performance in the sector. The company struggled during the beginning of the year, as the drop in crude oil prices weighed significantly on energy-related companies. Exposure to EnLink Midstream Partners LP also weighed on results, as the company was downgraded early in the period. We exited both positions, prior to the rebound in oil.

Royal Bank of Scotland (RBS) was the leading corporate detractor from relative results. We had owned RBS, in large part, due to the bank's singular focus on simplifying its balance sheet. However, Brexit and associated uncertainties as well as lower interest rates in the UK have significantly affected RBS' ability to execute on their business plan. We exited our position.

On an asset class basis, detractors included our cash position and our yield curve positioning in U.S. Treasuries. Cash is not used as a strategy within the Portfolio but is a residual of our fundamental, bottom-up investment process. In terms of Treasuries, we reduced duration exposure from the asset class following the U.S. election. However, exposure to the 5- and 10-year notes, which were significantly impacted by future Fed projections, weighed on results.

Please see the Derivative Instruments section in the "Notes to Financial Statements" for a discussion of derivatives used by the Portfolio.

### OUTLOOK

We think U.S. stocks continue to be well positioned, and intend to maintain our overweight to equities as we move into the new year. Mr. Trump campaigned on a pro-growth agenda that we believe will be business-friendly. Proposed tax reforms, deregulation and infrastructure spending could help drive inflation and faster economic

## Janus Aspen Balanced Portfolio (unaudited)

growth, leading to higher interest rates, increased capital expenditure and rising wages – all a net positive for U.S. stocks. In particular, the cyclical stocks that accelerated after the election, such as financials and industrials, could continue to charge ahead in 2017.

This outlook, of course, hinges on Mr. Trump's agenda becoming a reality. In addition, proposed trade tariffs and a strong dollar could weigh on certain U.S. multinational companies. Given that, we remain optimistic about U.S. stocks but are focused on finding companies that are exposed to secular growth trends and can continue to increase earnings and free cash flow.

We anticipate a steeper yield curve, with the front end moving on Fed projections and the long end rising further on increased inflationary expectations. The Fed's forecast for three interest rate hikes in 2017 is in line with our expectations, although we believe more hikes could be warranted in a reflationary environment. As a result, we will continue to actively manage duration and yield curve positioning in the fixed income sleeve, with the expectation of maintaining duration below that of the benchmark.

New fiscal policies, if properly implemented, should stimulate growth and the accompanying rise in operating earnings could allow companies to grow into their capital structures, reversing the recent trend of increasing leverage. We will closely monitor the difference between rhetoric and policy implementation, as well as the transition from policy intentions to growth. Our analysts are conducting in-depth, bottom-up research to identify issuers with higher quality business models and strong fundamentals, particularly in sectors that may benefit from a change in economic policy.

With growth prospects on the horizon, we are taking a selectively opportunistic approach to U.S. corporate credit, yet we remain mindful of tighter spread levels after tightening in 2016. We are also closely monitoring the ability for corporate spreads to hold near current levels in a rising-rate environment. Our focus remains on issuers with ample liquidity, strong free-cash-flow generation potential and commitment to a sound balance sheet. In this extended cycle, the importance of security avoidance remains a central aspect of our investment process. Even as we opportunistically add to credit, we intend to maintain a conservative bias in the fixed income sleeve, reflecting our commitment to deliver capital preservation and strong risk-adjusted returns for our clients.

Thank you for your investment in Janus Aspen Balanced Portfolio.

**Janus Aspen Balanced Portfolio (unaudited)**  
**Portfolio At A Glance**  
**December 31, 2016**

**5 Top Performers - Holdings**

	<b>Contribution</b>		<b>Contribution</b>
CME Group Inc	0.80%	Allergan plc	-1.00%
Morgan Stanley	0.75%	NIKE Inc	-0.69%
Microsoft Corp	0.73%	Regeneron Pharmaceuticals Inc	-0.48%
Boeing Co	0.70%	Bristol-Myers Squibb Co	-0.47%
Synchrony Financial	0.58%	Norwegian Cruise Line Holdings Ltd	-0.39%

**5 Bottom Performers - Holdings**

**5 Top Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>S&amp;P 500 Index Weighting</b>
Consumer Staples	0.47%	8.68%	10.15%
Real Estate	0.29%	1.15%	0.97%
Other**	0.15%	1.48%	0.00%
Industrials	0.08%	11.56%	10.05%
Utilities	-0.14%	0.00%	3.32%

**5 Bottom Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>S&amp;P 500 Index Weighting</b>
Health Care	-2.29%	16.76%	14.59%
Consumer Discretionary	-1.17%	20.77%	12.56%
Energy	-0.98%	0.00%	7.05%
Information Technology	-0.68%	19.82%	20.60%
Financials	-0.55%	15.53%	15.17%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

\* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

\*\* Not a GICS classified sector.

# Janus Aspen Balanced Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Largest Equity Holdings - (% of Net Assets)

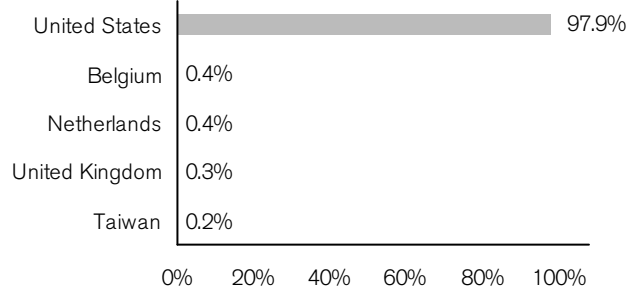
Microsoft Corp	
Software	3.2%
Boeing Co	
Aerospace & Defense	2.6%
Mastercard Inc	
Information Technology Services	2.6%
Altria Group Inc	
Tobacco	2.4%
Amgen Inc	
Biotechnology	2.2%
	13.0%

#### Asset Allocation - (% of Net Assets)

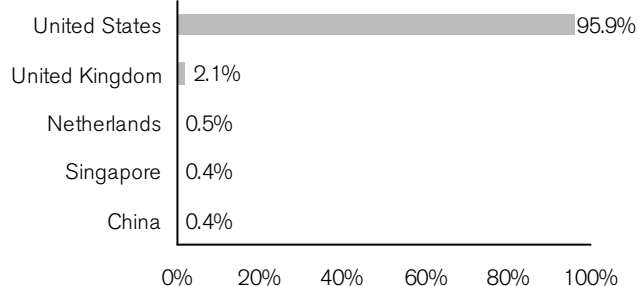
Common Stocks	62.6%
Corporate Bonds	16.2%
Mortgage-Backed Securities	8.4%
U.S. Government Agency Notes	3.7%
United States Treasury	
Notes/Bonds	3.1%
Asset-Backed/Commercial	
Mortgage-Backed Securities	2.7%
Bank Loans and Mezzanine Loans	1.8%
Inflation-Indexed Bonds	0.6%
Investment Companies	0.6%
Preferred Stocks	0.3%
Other	(0.0)%
	100.0%

#### Top Country Allocations - Long Positions - (% of Investment Securities)

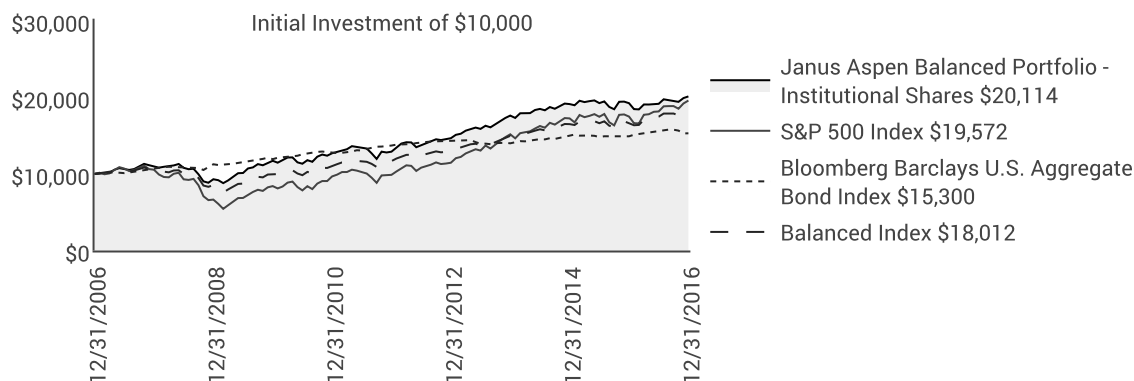
As of December 31, 2016



As of December 31, 2015



## Janus Aspen Balanced Portfolio (unaudited) Performance



Average Annual Total Return - for the periods ended December 31, 2016					Expense Ratios - per the May 1, 2016 prospectuses
	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Institutional Shares	4.60%	9.29%	7.24%	9.59%	0.63%
Service Shares	4.32%	9.02%	6.97%	9.42%	0.89%
S&P 500 Index	11.96%	14.66%	6.95%	9.13%	
Bloomberg Barclays U.S. Aggregate Bond Index	2.65%	2.23%	4.34%	5.29%	
Balanced Index	7.84%	9.07%	6.06%	7.66%	
Morningstar Quartile - Institutional Shares	4th	1st	1st	1st	
Morningstar Ranking - based on total returns for Allocation - 50% to 70% Equity Funds	730/829	156/701	18/557	10/224	

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit [janus.com/variable-insurance](http://janus.com/variable-insurance).

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, portfolio holdings and other details.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Returns shown do not represent actual returns since they do not include insurance charges. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

See important disclosures on the next page.



## **Janus Aspen Balanced Portfolio (unaudited) Performance**

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

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There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective April 1, 2016, Jeremiah Buckley, Marc Pinto, Mayur Saigal and Darrell Watters are Co-Portfolio Managers of the Portfolio.

\*The Portfolio's inception date – September 13, 1993

# Janus Aspen Balanced Portfolio (unaudited)

## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of \$1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit [www.finra.org/fundalyzer](http://www.finra.org/fundalyzer).

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples 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 transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			Net Annualized Expense Ratio
	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	
Institutional Shares	\$1,000.00	\$1,050.50	\$3.25	\$1,000.00	\$1,021.97	\$3.20	0.63%
Service Shares	\$1,000.00	\$1,049.20	\$4.58	\$1,000.00	\$1,020.66	\$4.52	0.89%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Asset-Backed/Commercial Mortgage-Backed Securities – 2.7%		
AmeriCredit Automobile Receivables 2016-1, 3.5900%, 2/8/22	\$1,718,000	\$1,747,809
AmeriCredit Automobile Receivables Trust 2012-4, 3.8200%, 2/10/20 (144A)	792,000	794,770
AmeriCredit Automobile Receivables Trust 2015-2, 3.0000%, 6/8/21	1,180,000	1,193,143
AmeriCredit Automobile Receivables Trust 2016-2, 3.6500%, 5/9/22	1,165,000	1,186,551
Applebee's Funding LLC / IHOP Funding LLC, 4.2770%, 9/5/44 (144A)	7,019,000	6,937,299
Aventura Mall Trust 2013-AVM, 3.7427%, 12/5/32 (144A) <sup>†</sup>	1,540,000	1,557,716
Banc of America Commercial Mortgage Trust 2007-3, 5.5485%, 6/10/49 <sup>†</sup>	1,019,148	1,032,673
Capital Auto Receivables Asset Trust 2013-4, 3.8300%, 7/20/22 (144A)	641,000	650,897
CGBAM Commercial Mortgage Trust 2014-HD, 3.5382%, 2/15/31 (144A) <sup>†</sup>	558,000	549,301
CKE Restaurant Holdings Inc, 4.4740%, 3/20/43 (144A)	3,208,750	3,166,920
COBALT CMBS Commercial Mortgage Trust 2007-C2, 5.5680%, 4/15/47 <sup>†</sup>	449,743	450,165
COMM 2007-C9 Mortgage Trust, 5.6500%, 12/10/49 <sup>†</sup>	1,140,000	1,160,153
Commercial Mortgage Trust 2007-GG11, 5.8670%, 12/10/49 <sup>†</sup>	779,573	796,693
Core Industrial Trust 2015-TEXW, 3.8487%, 2/10/34 (144A) <sup>†</sup>	1,547,000	1,496,065
Cosmopolitan Hotel Trust 2016-COSMO, 2.8039%, 11/15/33 (144A) <sup>†</sup>	532,000	534,667
Cosmopolitan Hotel Trust 2016-COSMO, 4.2039%, 11/15/33 (144A) <sup>†</sup>	694,000	697,914
Cosmopolitan Hotel Trust 2016-COSMO, 5.3539%, 11/15/33 (144A) <sup>†</sup>	1,024,000	1,030,714
Domino's Pizza Master Issuer LLC, 5.2160%, 1/25/42 (144A)	1,314,210	1,340,446
Domino's Pizza Master Issuer LLC, 3.4840%, 10/25/45 (144A)	3,100,680	3,068,433
FREMF 2010 K-SCT Mortgage Trust, 2.0000%, 1/25/20 (144A) <sup>§</sup>	1,107,877	1,025,499
GAHR Commercial Mortgage Trust 2015-NRF, 3.3822%, 12/15/34 (144A) <sup>†</sup>	768,000	763,300
GS Mortgage Securities Corp II, 3.4350%, 12/10/27 (144A) <sup>†</sup>	1,867,000	1,762,900
GS Mortgage Securities Corp Trust 2013-NYC5, 3.6490%, 1/10/30 (144A) <sup>†</sup>	765,000	777,287
Hilton USA Trust 2013-HLT, 4.4534%, 11/5/30 (144A) <sup>†</sup>	1,032,000	1,033,350
J.P. Morgan Chase Commercial Mortgage Securities Trust 2016-WIKI, 3.5537%, 10/5/31 (144A)	336,000	338,350
J.P. Morgan Chase Commercial Mortgage Securities Trust 2016-WIKI, 4.0090%, 10/5/31 (144A) <sup>†</sup>	513,000	509,944
JP Morgan Chase Commercial Mortgage Securities Trust 2015-SGP, 3.4539%, 7/15/36 (144A) <sup>†</sup>	514,000	517,201
JP Morgan Chase Commercial Mortgage Securities Trust 2015-SGP, 5.2039%, 7/15/36 (144A) <sup>†</sup>	1,634,000	1,644,205
JP Morgan Chase Commercial Mortgage Securities Trust 2015-UES, 3.6210%, 9/5/32 (144A) <sup>†</sup>	1,084,000	1,048,289
LB-UBS Commercial Mortgage Trust 2006-C1, 5.2760%, 2/15/41 <sup>†</sup>	955,368	955,415
LB-UBS Commercial Mortgage Trust 2007-C1, 5.4840%, 2/15/40	1,183,007	1,184,041
LB-UBS Commercial Mortgage Trust 2007-C2, 5.4930%, 2/15/40 <sup>†</sup>	685,350	691,027
LB-UBS Commercial Mortgage Trust 2007-C7, 6.2452%, 9/15/45 <sup>†</sup>	932,101	939,789
OSCAR US Funding Trust V, 2.7300%, 12/15/20 (144A)	570,000	563,492
OSCAR US Funding Trust V, 2.9900%, 12/15/23 (144A)	490,000	480,261
Santander Drive Auto Receivables Trust 2012-6, 2.5200%, 9/17/18	585,942	586,720
Santander Drive Auto Receivables Trust 2013-4, 4.6700%, 1/15/20 (144A)	2,189,000	2,226,828
Santander Drive Auto Receivables Trust 2013-A, 4.7100%, 1/15/21 (144A)	1,166,000	1,195,550
Santander Drive Auto Receivables Trust 2015-1, 3.2400%, 4/15/21	1,237,000	1,251,467
Santander Drive Auto Receivables Trust 2015-4, 3.5300%, 8/16/21	2,120,000	2,154,832
Starwood Retail Property Trust 2014-STAR, 3.2039%, 11/15/27 (144A) <sup>†</sup>	654,000	644,567
Starwood Retail Property Trust 2014-STAR, 3.9539%, 11/15/27 (144A) <sup>†</sup>	1,997,000	1,902,548
Starwood Retail Property Trust 2014-STAR, 4.8539%, 11/15/27 (144A) <sup>†</sup>	1,059,000	1,000,623
Taco Bell Funding LLC, 3.8320%, 5/25/46 (144A)	2,286,270	2,294,558
Wachovia Bank Commercial Mortgage Trust Series 2007-C30, 5.3830%, 12/15/43	1,991,086	1,991,534
Wachovia Bank Commercial Mortgage Trust Series 2007-C31, 5.6600%, 4/15/47 <sup>†</sup>	3,122,572	3,150,274
Wachovia Bank Commercial Mortgage Trust Series 2007-C33, 5.9692%, 2/15/51 <sup>†</sup>	2,196,098	2,201,817
Wachovia Bank Commercial Mortgage Trust Series 2007-C34, 5.9416%, 5/15/46 <sup>†</sup>	721,799	723,466
Wells Fargo Commercial Mortgage Trust 2014-TISH, 3.2882%, 1/15/27 (144A) <sup>†</sup>	618,000	602,821
Wells Fargo Commercial Mortgage Trust 2014-TISH, 2.9540%, 2/15/27 (144A) <sup>†</sup>	1,192,000	1,195,425
Wells Fargo Commercial Mortgage Trust 2014-TISH, 3.7880%, 2/15/27 (144A) <sup>†</sup>	309,000	309,049
Wendys Funding LLC 2015-1, 3.3710%, 6/15/45 (144A)	3,743,613	3,737,907
<b>Total Asset-Backed/Commercial Mortgage-Backed Securities (cost \$71,333,700)</b>		<b>70,796,665</b>

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Bank Loans and Mezzanine Loans – 1.8%		
Basic Industry – 0.1%		
Axalta Coating Systems US Holdings Inc, 3.4982%, 2/1/23 <sup>(a),†</sup>	\$2,987,360	\$3,015,381
Communications – 0.6%		
Charter Communications Operating LLC, 3.0200%, 7/1/20 <sup>†</sup>	918,859	922,690
Charter Communications Operating LLC, 3.0200%, 1/3/21 <sup>†</sup>	1,377,296	1,382,653
Charter Communications Operating LLC, 3.5000%, 1/15/24 <sup>†</sup>	2,384,020	2,396,369
Level 3 Financing Inc, 4.0000%, 1/15/20 <sup>(a),†</sup>	286,000	289,718
Level 3 Financing Inc, 3.5000%, 5/31/22 <sup>†</sup>	4,369,000	4,418,151
Mission Broadcasting Inc, 0%, 9/26/23 <sup>(a),†</sup>	93,764	94,496
Nexstar Broadcasting Inc, 0%, 9/26/23 <sup>(a),†</sup>	1,052,236	1,060,454
Nielsen Finance LLC, 3.1542%, 10/4/23 <sup>†</sup>	2,226,694	2,249,896
T-Mobile USA Inc, 3.5200%, 11/9/22 <sup>†</sup>	1,826,165	1,847,093
		14,661,520
Consumer Cyclical – 0.6%		
Aramark Services Inc, 3.3533%, 9/7/19 <sup>†</sup>	1,627,907	1,643,176
Aramark Services Inc, 3.4982%, 2/24/21 <sup>†</sup>	2,220,583	2,239,214
Hilton Worldwide Finance LLC, 3.5000%, 10/26/20 <sup>†</sup>	123,151	124,160
Hilton Worldwide Finance LLC, 3.2561%, 10/25/23 <sup>(a),†</sup>	5,316,605	5,373,758
KFC Holding Co, 3.4862%, 6/16/23 <sup>†</sup>	5,061,281	5,127,735
Landry's Inc, 4.0000%, 10/4/23 <sup>†</sup>	2,484,000	2,506,629
		17,014,672
Consumer Non-Cyclical – 0.2%		
HCA Inc, 3.5200%, 2/15/24 <sup>†</sup>	2,790,008	2,821,841
Quintiles IMS Inc, 3.5000%, 3/17/21 <sup>†</sup>	1,296,343	1,303,745
Tumi Holdings Inc, 3.3556%, 8/1/21 <sup>†</sup>	917,000	916,239
		5,041,825
Technology – 0.3%		
Avago Technologies Cayman Finance Ltd, 3.7039%, 2/1/23 <sup>(a),†</sup>	5,760,886	5,840,098
CommScope Inc, 3.2700%, 12/29/22 <sup>(a),†</sup>	1,811,243	1,826,638
		7,666,736
<b>Total Bank Loans and Mezzanine Loans (cost \$47,188,941)</b>		<b>47,400,134</b>
Corporate Bonds – 16.2%		
Asset-Backed Securities – 0.1%		
American Tower Trust #1, 1.5510%, 3/15/18 (144A)	2,200,000	2,198,005
Banking – 2.4%		
Ally Financial Inc, 3.2500%, 11/5/18	1,243,000	1,244,554
Ally Financial Inc, 8.0000%, 12/31/18	506,000	552,173
Bank of America Corp, 5.4200%, 3/15/17	600,000	604,346
Bank of America Corp, 3.8750%, 3/22/17	473,000	475,677
Bank of America Corp, 5.7000%, 5/2/17	1,513,000	1,533,596
Bank of America Corp, 4.1830%, 11/25/27	5,153,000	5,148,409
Bank of America Corp, 6.3000% <sup>†</sup>	1,024,000	1,070,080
Bank of America NA, 5.3000%, 3/15/17	2,520,000	2,539,512
Citigroup Inc, 2.3607%, 9/1/23 <sup>†</sup>	2,669,000	2,722,068
Citizens Financial Group Inc, 3.7500%, 7/1/24	764,000	738,662
Citizens Financial Group Inc, 4.3500%, 8/1/25	525,000	526,771
Citizens Financial Group Inc, 4.3000%, 12/3/25	2,932,000	2,974,408
Credit Suisse AG/New York NY, 1.3750%, 5/26/17	586,000	586,127
Discover Financial Services, 3.9500%, 11/6/24	1,401,000	1,386,784
Discover Financial Services, 3.7500%, 3/4/25	1,909,000	1,863,988
Goldman Sachs Capital I, 6.3450%, 2/15/34	3,132,000	3,718,702
Goldman Sachs Group Inc, 5.6250%, 1/15/17	878,000	879,072
Goldman Sachs Group Inc, 3.7500%, 2/25/26	1,832,000	1,834,867
JPMorgan Chase & Co, 2.2950%, 8/15/21	3,527,000	3,458,446
JPMorgan Chase & Co, 3.3750%, 5/1/23	3,430,000	3,414,195
Morgan Stanley, 5.5500%, 4/27/17	874,000	885,556
Morgan Stanley, 2.4500%, 2/1/19	1,301,000	1,309,463
Morgan Stanley, 2.8000%, 6/16/20	1,435,000	1,445,732
Morgan Stanley, 4.8750%, 11/1/22	916,000	980,647
Morgan Stanley, 3.9500%, 4/23/27	1,939,000	1,916,498

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Corporate Bonds – (continued)		
Banking – (continued)		
Murray Street Investment Trust I, 4.6470%, 3/9/17 <sup>c</sup>	\$3,570,000	\$3,588,600
Santander UK PLC, 5.0000%, 11/7/23 (144A)	3,280,000	3,336,823
SVB Financial Group, 5.3750%, 9/15/20	2,363,000	2,558,519
Synchrony Financial, 2.6000%, 1/15/19	97,000	97,458
Synchrony Financial, 3.0000%, 8/15/19	1,891,000	1,914,677
Synchrony Financial, 4.5000%, 7/23/25	2,686,000	2,755,495
UBS AG, 4.7500%, 5/22/23 <sup>†</sup>	1,681,000	1,714,620
UBS AG/Jersey, 7.2500%, 2/22/22 <sup>†</sup>	305,000	306,805
Wells Fargo & Co, 2.1000%, 5/8/17	842,000	844,374
Wells Fargo & Co, 3.0000%, 4/22/26	867,000	826,152
Wells Fargo & Co, 5.8750% <sup>u</sup>	1,576,000	1,654,642
		63,408,498
Basic Industry – 0.4%		
Air Liquide Finance SA, 1.7500%, 9/27/21 (144A)	923,000	886,254
ArcelorMittal, 7.2500%, 2/25/22 <sup>†</sup>	173,000	195,058
Ashland LLC, 3.8750%, 4/15/18	1,272,000	1,305,390
Georgia-Pacific LLC, 3.1630%, 11/15/21 (144A)	3,919,000	3,961,991
Georgia-Pacific LLC, 3.6000%, 3/1/25 (144A)	1,991,000	2,011,221
Reliance Steel & Aluminum Co, 4.5000%, 4/15/23	1,984,000	1,994,164
Steel Dynamics Inc, 5.0000%, 12/15/26 (144A)	228,000	227,145
		10,581,223
Brokerage – 1.4%		
Carlyle Holdings Finance LLC, 3.8750%, 2/1/23 (144A)	1,021,000	1,029,261
Charles Schwab Corp, 3.0000%, 3/10/25	795,000	779,004
Charles Schwab Corp, 4.6250% <sup>u</sup>	1,510,000	1,419,400
Charles Schwab Corp, 7.0000% <sup>u</sup>	2,196,000	2,497,950
E*TRADE Financial Corp, 5.3750%, 11/15/22	2,630,000	2,782,606
E*TRADE Financial Corp, 4.6250%, 9/15/23	3,515,000	3,585,300
Intercontinental Exchange Inc, 3.7500%, 12/1/25	2,289,000	2,348,180
Lazard Group LLC, 4.2500%, 11/14/20	2,633,000	2,751,309
Neuberger Berman Group LLC / Neuberger Berman Finance Corp, 5.8750%, 3/15/22 (144A)	2,994,000	3,095,047
Neuberger Berman Group LLC / Neuberger Berman Finance Corp, 4.8750%, 4/15/45 (144A)	2,763,000	2,189,705
Raymond James Financial Inc, 5.6250%, 4/1/24	5,987,000	6,659,604
Raymond James Financial Inc, 3.6250%, 9/15/26	593,000	577,455
Scottrade Financial Services Inc, 6.1250%, 7/11/21 (144A)	846,000	955,698
TD Ameritrade Holding Corp, 2.9500%, 4/1/22	2,253,000	2,278,761
TD Ameritrade Holding Corp, 3.6250%, 4/1/25	4,163,000	4,220,961
		37,170,241
Capital Goods – 0.6%		
Arconic Inc, 5.1250%, 10/1/24	239,000	244,975
Ball Corp, 4.3750%, 12/15/20	1,340,000	1,400,300
CNH Industrial Capital LLC, 3.6250%, 4/15/18	1,449,000	1,467,113
General Electric Co, 5.0000% <sup>u</sup>	2,502,000	2,596,325
L-3 Communications Corp, 3.8500%, 12/15/26	404,000	400,981
Martin Marietta Materials Inc, 4.2500%, 7/2/24	1,310,000	1,329,469
Masco Corp, 3.5000%, 4/1/21	1,291,000	1,294,228
Masco Corp, 4.3750%, 4/1/26	216,000	219,687
Owens Corning, 4.2000%, 12/1/24	1,207,000	1,234,916
Owens Corning, 3.4000%, 8/15/26	414,000	392,693
Vulcan Materials Co, 7.0000%, 6/15/18	1,559,000	1,664,232
Vulcan Materials Co, 7.5000%, 6/15/21	882,000	1,038,555
Vulcan Materials Co, 4.5000%, 4/1/25	2,528,000	2,641,760
Xylem Inc/NY, 3.2500%, 11/1/26	593,000	574,960
		16,500,194
Communications – 1.6%		
American Tower Corp, 3.3000%, 2/15/21	2,064,000	2,085,835
American Tower Corp, 3.4500%, 9/15/21	214,000	216,569

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Corporate Bonds – (continued)		
Communications – (continued)		
American Tower Corp, 3.5000%, 1/31/23	\$379,000	\$379,750
American Tower Corp, 4.4000%, 2/15/26	1,353,000	1,380,724
American Tower Corp, 3.3750%, 10/15/26	2,498,000	2,361,297
BellSouth LLC, 4.4000%, 4/26/17 (144A)	10,129,000	10,232,822
CCO Holdings LLC / CCO Holdings Capital Corp, 5.2500%, 3/15/21	1,927,000	1,984,810
Charter Communications Operating LLC / Charter Communications Operating Capital, 4.9080%, 7/23/25	3,098,000	3,261,014
Comcast Corp, 2.3500%, 1/15/27	1,244,000	1,147,913
Cox Communications Inc, 3.3500%, 9/15/26 (144A)	2,599,000	2,478,188
Crown Castle International Corp, 4.8750%, 4/15/22	3,225,000	3,433,980
Crown Castle International Corp, 5.2500%, 1/15/23	1,685,000	1,813,481
SBA Tower Trust, 2.9330%, 12/11/17 (144A)	1,253,000	1,254,299
Time Warner Cable LLC, 5.8500%, 5/1/17	1,844,000	1,870,126
UBM PLC, 5.7500%, 11/3/20 (144A)	2,580,000	2,710,378
Verizon Communications Inc, 1.7500%, 8/15/21	824,000	789,722
Verizon Communications Inc, 2.6250%, 8/15/26	4,762,000	4,376,988
Verizon Communications Inc, 4.1250%, 8/15/46	1,046,000	944,739
		42,722,635
Consumer Cyclical – 1.2%		
1011778 BC ULC / New Red Finance Inc, 4.6250%, 1/15/22 (144A)	2,750,000	2,805,000
Brinker International Inc, 3.8750%, 5/15/23	2,716,000	2,570,015
CVS Health Corp, 2.8000%, 7/20/20	4,107,000	4,166,391
CVS Health Corp, 4.7500%, 12/1/22	1,025,000	1,111,892
CVS Health Corp, 5.0000%, 12/1/24	1,371,000	1,499,086
DR Horton Inc, 4.7500%, 5/15/17	813,000	820,114
DR Horton Inc, 3.7500%, 3/1/19	1,806,000	1,842,120
DR Horton Inc, 4.0000%, 2/15/20	346,000	355,515
Ford Motor Co, 4.3460%, 12/8/26	1,499,000	1,512,567
Ford Motor Credit Co LLC, 3.0000%, 6/12/17	576,000	579,343
General Motors Co, 4.8750%, 10/2/23	825,000	863,919
General Motors Financial Co Inc, 3.7000%, 5/9/23	876,000	861,047
Hanesbrands Inc, 4.6250%, 5/15/24 (144A)	3,392,000	3,290,240
IHO Verwaltungs GmbH, 4.1250%, 9/15/21 (144A)	569,000	574,690
IHO Verwaltungs GmbH, 4.5000%, 9/15/23 (144A)	262,000	256,105
MDC Holdings Inc, 5.5000%, 1/15/24	1,982,000	2,046,415
Schaeffler Finance BV, 4.2500%, 5/15/21 (144A)	807,000	823,140
Toll Brothers Finance Corp, 4.0000%, 12/31/18	716,000	734,795
Toll Brothers Finance Corp, 5.8750%, 2/15/22	653,000	708,505
Toll Brothers Finance Corp, 4.3750%, 4/15/23	374,000	373,065
Walgreens Boots Alliance Inc, 2.6000%, 6/1/21	659,000	654,283
Walgreens Boots Alliance Inc, 3.1000%, 6/1/23	418,000	414,778
Walgreens Boots Alliance Inc, 3.4500%, 6/1/26	1,699,000	1,665,321
Walgreens Boots Alliance Inc, 4.6500%, 6/1/46	292,000	295,729
ZF North America Capital Inc, 4.5000%, 4/29/22 (144A)	545,000	562,031
		31,386,106
Consumer Non-Cyclical – 2.5%		
AbbVie Inc, 3.2000%, 5/14/26	3,482,000	3,308,046
Actavis Funding SCS, 3.0000%, 3/12/20	3,417,000	3,462,675
Anheuser-Busch InBev Finance Inc, 2.6500%, 2/1/21	711,000	714,262
Anheuser-Busch InBev Finance Inc, 3.3000%, 2/1/23	3,258,000	3,312,373
Anheuser-Busch InBev Finance Inc, 3.6500%, 2/1/26	5,937,000	6,017,915
Anheuser-Busch InBev Finance Inc, 4.9000%, 2/1/46	1,666,000	1,788,839
Becton Dickinson and Co, 1.8000%, 12/15/17	1,598,000	1,601,530
Constellation Brands Inc, 4.2500%, 5/1/23	2,469,000	2,560,081
Constellation Brands Inc, 3.7000%, 12/6/26	583,000	569,614
Danone SA, 2.0770%, 11/2/21 (144A)	2,683,000	2,602,918
Danone SA, 2.5890%, 11/2/23 (144A)	1,618,000	1,557,191
Express Scripts Holding Co, 4.5000%, 2/25/26	1,850,000	1,901,987
HCA Inc, 3.7500%, 3/15/19	1,320,000	1,356,300

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Corporate Bonds – (continued)		
Consumer Non-Cyclical – (continued)		
HCA Inc, 5.3750%, 2/1/25	\$344,000	\$344,860
Kraft Heinz Foods Co, 2.8000%, 7/2/20	1,617,000	1,631,236
Kraft Heinz Foods Co, 3.5000%, 7/15/22	1,381,000	1,400,402
Kraft Heinz Foods Co, 3.0000%, 6/1/26	1,700,000	1,593,673
Life Technologies Corp, 6.0000%, 3/1/20	1,591,000	1,732,139
Molson Coors Brewing Co, 3.0000%, 7/15/26	3,336,000	3,148,860
Molson Coors Brewing Co, 4.2000%, 7/15/46	800,000	744,349
Newell Brands Inc, 3.1500%, 4/1/21	705,000	716,881
Newell Brands Inc, 3.8500%, 4/1/23	668,000	692,202
Newell Brands Inc, 5.0000%, 11/15/23	1,337,000	1,433,461
Newell Brands Inc, 4.2000%, 4/1/26	3,146,000	3,279,249
Perrigo Finance Unlimited Co, 3.9000%, 12/15/24	1,784,000	1,744,242
Perrigo Finance Unlimited Co, 4.3750%, 3/15/26	745,000	744,739
Shire Acquisitions Investments Ireland DAC, 2.4000%, 9/23/21	1,572,000	1,517,098
Shire Acquisitions Investments Ireland DAC, 2.8750%, 9/23/23	2,121,000	2,013,565
Shire Acquisitions Investments Ireland DAC, 3.2000%, 9/23/26	2,133,000	1,990,471
Smithfield Foods Inc, 5.2500%, 8/1/18 (144A)	162,000	163,823
Sysco Corp, 2.5000%, 7/15/21	539,000	532,763
Sysco Corp, 3.3000%, 7/15/26	1,352,000	1,324,799
Universal Health Services Inc, 4.7500%, 8/1/22 (144A)	2,259,000	2,287,237
Universal Health Services Inc, 5.0000%, 6/1/26 (144A)	1,803,000	1,757,925
Wm Wrigley Jr Co, 2.4000%, 10/21/18 (144A)	3,822,000	3,855,485
Wm Wrigley Jr Co, 3.3750%, 10/21/20 (144A)	1,239,000	1,272,688
		66,675,878
Electric – 0.5%		
Dominion Resources Inc/VA, 2.0000%, 8/15/21	298,000	288,723
Dominion Resources Inc/VA, 2.8500%, 8/15/26	412,000	385,145
Duke Energy Corp, 1.8000%, 9/1/21	799,000	768,950
Duke Energy Corp, 2.6500%, 9/1/26	1,249,000	1,163,942
IPALCO Enterprises Inc, 5.0000%, 5/1/18	1,148,000	1,185,310
PPL WEM Ltd / Western Power Distribution Ltd, 5.3750%, 5/1/21 (144A)	2,118,000	2,283,566
Southern Co, 2.3500%, 7/1/21	2,426,000	2,382,097
Southern Co, 2.9500%, 7/1/23	1,736,000	1,711,217
Southern Co, 3.2500%, 7/1/26	2,439,000	2,370,213
		12,539,163
Energy – 1.8%		
Anadarko Petroleum Corp, 4.8500%, 3/15/21	355,000	380,340
Anadarko Petroleum Corp, 5.5500%, 3/15/26	2,215,000	2,475,929
Antero Resources Corp, 5.3750%, 11/1/21	2,087,000	2,133,957
Buckeye Partners LP, 3.9500%, 12/1/26	435,000	423,748
Canadian Natural Resources Ltd, 5.7000%, 5/15/17	478,000	485,104
Canadian Natural Resources Ltd, 5.9000%, 2/1/18	851,000	885,756
Cenovus Energy Inc, 5.7000%, 10/15/19	54,000	57,739
Cimarex Energy Co, 5.8750%, 5/1/22	1,753,000	1,822,084
Cimarex Energy Co, 4.3750%, 6/1/24	592,000	614,960
ConocoPhillips Co, 4.2000%, 3/15/21	1,632,000	1,732,143
ConocoPhillips Co, 4.9500%, 3/15/26	2,049,000	2,259,088
Diamond Offshore Drilling Inc, 5.8750%, 5/1/19	404,000	419,049
Energy Transfer Partners LP, 4.1500%, 10/1/20	1,208,000	1,250,048
Energy Transfer Partners LP, 4.7500%, 1/15/26	1,058,000	1,092,377
Helmerich & Payne International Drilling Co, 4.6500%, 3/15/25	4,177,000	4,310,764
Hess Corp, 4.3000%, 4/1/27	1,771,000	1,760,252
Hiland Partners Holdings LLC / Hiland Partners Finance Corp, 5.5000%, 5/15/22 (144A)	1,161,000	1,212,200
Kinder Morgan Energy Partners LP, 5.0000%, 10/1/21	1,107,000	1,177,661
Kinder Morgan Energy Partners LP, 3.9500%, 9/1/22	1,184,000	1,214,358
Kinder Morgan Inc/DE, 6.5000%, 9/15/20	115,000	128,836
Motiva Enterprises LLC, 5.7500%, 1/15/20 (144A)	1,636,000	1,766,860
MPLX LP, 4.5000%, 7/15/23	514,000	521,509

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Corporate Bonds – (continued)		
Energy – (continued)		
Oceaneering International Inc, 4.6500%, 11/15/24	\$2,572,000	\$2,533,896
Phillips 66 Partners LP, 3.6050%, 2/15/25	1,324,000	1,295,040
Plains All American Pipeline LP / PAA Finance Corp, 4.6500%, 10/15/25	2,604,000	2,686,833
Regency Energy Partners LP / Regency Energy Finance Corp, 5.8750%, 3/1/22	1,530,000	1,681,546
Sabine Pass Liquefaction LLC, 5.0000%, 3/15/27 (144A)	2,614,000	2,636,872
Spectra Energy Partners LP, 4.7500%, 3/15/24	2,846,000	3,018,192
Tesoro Logistics LP / Tesoro Logistics Finance Corp, 5.2500%, 1/15/25	694,000	708,748
Western Gas Partners LP, 5.3750%, 6/1/21	2,512,000	2,699,641
Williams Cos Inc, 3.7000%, 1/15/23	729,000	703,485
Williams Partners LP / ACMP Finance Corp, 4.8750%, 5/15/23	1,972,000	2,007,439
Williams Partners LP / ACMP Finance Corp, 4.8750%, 3/15/24	183,000	184,637
		48,281,091
Finance Companies – 0.3%		
CIT Group Inc, 4.2500%, 8/15/17	4,903,000	4,964,287
CIT Group Inc, 5.5000%, 2/15/19 (144A)	1,443,000	1,522,365
International Lease Finance Corp, 8.7500%, 3/15/17	1,081,000	1,095,864
		7,582,516
Financial Institutions – 0.5%		
Jones Lang LaSalle Inc, 4.4000%, 11/15/22	2,614,000	2,692,417
Kennedy-Wilson Inc, 5.8750%, 4/1/24	4,445,000	4,528,344
LeasePlan Corp NV, 2.5000%, 5/16/18 (144A)	4,630,000	4,636,051
		11,856,812
Industrial – 0%		
Cintas Corp No 2, 4.3000%, 6/1/21	1,112,000	1,179,174
Insurance – 0.4%		
Aetna Inc, 2.4000%, 6/15/21	1,495,000	1,486,896
Aetna Inc, 2.8000%, 6/15/23	1,082,000	1,064,583
Aetna Inc, 3.2000%, 6/15/26	4,670,000	4,613,073
Berkshire Hathaway Inc, 3.1250%, 3/15/26	401,000	397,819
CNO Financial Group Inc, 4.5000%, 5/30/20	627,000	642,675
Voya Financial Inc, 5.6500%, 5/15/53 <sup>†</sup>	1,626,000	1,601,610
		9,806,656
Real Estate Investment Trusts (REITs) – 0.6%		
Alexandria Real Estate Equities Inc, 2.7500%, 1/15/20	1,136,000	1,132,679
Alexandria Real Estate Equities Inc, 4.6000%, 4/1/22	3,249,000	3,433,943
Alexandria Real Estate Equities Inc, 4.5000%, 7/30/29	1,760,000	1,757,928
Post Apartment Homes LP, 4.7500%, 10/15/17	1,505,000	1,527,993
Senior Housing Properties Trust, 6.7500%, 4/15/20	736,000	796,077
Senior Housing Properties Trust, 6.7500%, 12/15/21	817,000	913,578
SL Green Realty Corp, 5.0000%, 8/15/18	1,756,000	1,828,568
SL Green Realty Corp, 7.7500%, 3/15/20	3,448,000	3,890,192
		15,280,958
Technology – 1.6%		
Cadence Design Systems Inc, 4.3750%, 10/15/24	4,105,000	4,020,322
Fidelity National Information Services Inc, 3.6250%, 10/15/20	1,227,000	1,269,336
Fidelity National Information Services Inc, 5.0000%, 3/15/22	540,000	554,888
Fidelity National Information Services Inc, 4.5000%, 10/15/22	1,597,000	1,702,736
Fidelity National Information Services Inc, 3.0000%, 8/15/26	2,056,000	1,930,559
NXP BV / NXP Funding LLC, 4.1250%, 6/15/20 (144A)	772,000	799,020
NXP BV / NXP Funding LLC, 4.1250%, 6/1/21 (144A)	501,000	517,283
NXP BV / NXP Funding LLC, 3.8750%, 9/1/22 (144A)	2,190,000	2,217,375
NXP BV / NXP Funding LLC, 4.6250%, 6/1/23 (144A)	1,207,000	1,267,350
Seagate HDD Cayman, 4.7500%, 1/1/25	2,053,000	1,955,883
Seagate HDD Cayman, 4.8750%, 6/1/27	670,000	602,958
Seagate HDD Cayman, 5.7500%, 12/1/34	633,000	539,633
Total System Services Inc, 3.8000%, 4/1/21	1,313,000	1,354,098
Total System Services Inc, 4.8000%, 4/1/26	3,663,000	3,941,677
Trimble Inc, 4.7500%, 12/1/24	4,541,000	4,593,208
TSMC Global Ltd, 1.6250%, 4/3/18 (144A)	6,273,000	6,247,651

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.



# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Corporate Bonds – (continued)		
Technology – (continued)		
Verisk Analytics Inc, 4.8750%, 1/15/19	\$1,497,000	\$1,568,816
Verisk Analytics Inc, 5.8000%, 5/1/21	2,531,000	2,813,910
Verisk Analytics Inc, 4.1250%, 9/12/22	1,459,000	1,518,479
Verisk Analytics Inc, 5.5000%, 6/15/45	1,716,000	1,821,561
		41,236,743
Transportation – 0.3%		
Penske Truck Leasing Co Lp / PTL Finance Corp, 3.3750%, 3/15/18 (144A)	2,480,000	2,523,102
Penske Truck Leasing Co Lp / PTL Finance Corp, 2.5000%, 6/15/19 (144A)	1,598,000	1,601,469
Penske Truck Leasing Co Lp / PTL Finance Corp, 4.8750%, 7/11/22 (144A)	246,000	263,712
Penske Truck Leasing Co Lp / PTL Finance Corp, 4.2500%, 1/17/23 (144A)	1,357,000	1,408,012
Southwest Airlines Co, 5.1250%, 3/1/17	1,589,000	1,598,221
		7,394,516
Total Corporate Bonds (cost \$424,476,000)		425,800,409
Inflation-Indexed Bonds – 0.6%		
United States Treasury Inflation Indexed Bonds, 0.1250%, 7/15/26 <sup>CC</sup> (cost \$15,167,870)	15,644,007	15,125,377
Mortgage-Backed Securities – 8.4%		
Fannie Mae Pool:		
6.0000%, 8/1/22	485,477	519,233
5.5000%, 1/1/25	210,283	223,650
4.0000%, 3/1/29	866,573	919,047
4.0000%, 6/1/29	401,378	425,941
4.0000%, 7/1/29	851,494	898,938
4.0000%, 9/1/29	857,265	905,393
5.0000%, 9/1/29	632,425	689,083
3.5000%, 10/1/29	116,474	122,438
5.0000%, 1/1/30	239,898	261,174
4.0000%, 4/1/34	1,019,034	1,081,995
6.0000%, 10/1/35	715,234	815,513
6.0000%, 12/1/35	801,035	915,887
6.0000%, 2/1/37	137,865	160,819
6.0000%, 9/1/37	471,333	504,333
6.0000%, 10/1/38	525,183	595,033
7.0000%, 2/1/39	220,272	265,112
5.5000%, 12/1/39	1,136,412	1,271,074
5.5000%, 3/1/40	937,324	1,064,877
5.5000%, 4/1/40	2,473,733	2,758,613
4.5000%, 10/1/40	204,632	220,937
5.0000%, 10/1/40	409,936	454,949
5.5000%, 2/1/41	513,988	583,862
5.0000%, 5/1/41	1,157,467	1,266,126
5.5000%, 5/1/41	776,842	867,037
5.5000%, 6/1/41	1,300,173	1,450,607
5.5000%, 6/1/41	1,129,927	1,279,727
5.5000%, 7/1/41	137,087	152,962
4.5000%, 8/1/41	841,806	908,966
5.5000%, 12/1/41	1,157,328	1,294,943
4.5000%, 1/1/42	222,177	238,999
5.5000%, 2/1/42	4,612,277	5,139,956
4.0000%, 6/1/42	1,612,363	1,709,336
4.5000%, 6/1/42	330,833	354,827
3.5000%, 7/1/42	1,018,224	1,049,469
4.0000%, 7/1/42	303,757	321,946
4.0000%, 8/1/42	723,414	766,872
4.0000%, 9/1/42	1,435,273	1,522,173
4.0000%, 9/1/42	930,992	987,127
4.0000%, 11/1/42	1,132,516	1,201,188
4.5000%, 11/1/42	536,933	581,732
4.0000%, 12/1/42	808,603	856,590

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Mortgage-Backed Securities – (continued)		
Fannie Mae Pool – (continued)		
3.5000%, 1/1/43	\$1,956,775	\$2,016,842
3.5000%, 2/1/43	4,247,601	4,377,899
3.5000%, 2/1/43	3,959,735	4,081,524
4.5000%, 3/1/43	1,579,965	1,746,261
4.0000%, 5/1/43	2,439,172	2,586,265
4.0000%, 8/1/43	2,863,904	3,036,977
4.0000%, 9/1/43	696,125	737,992
3.5000%, 1/1/44	3,425,218	3,535,522
3.5000%, 1/1/44	1,528,702	1,577,711
4.0000%, 2/1/44	1,913,920	2,029,999
3.5000%, 4/1/44	1,748,415	1,801,936
4.5000%, 5/1/44	187,334	204,698
5.5000%, 5/1/44	1,057,148	1,179,348
4.0000%, 6/1/44	2,359,887	2,502,802
4.0000%, 7/1/44	4,391,094	4,664,327
5.0000%, 7/1/44	2,556,067	2,848,495
4.0000%, 8/1/44	2,800,327	2,974,690
4.0000%, 8/1/44	1,074,649	1,141,619
4.5000%, 8/1/44	2,926,458	3,193,709
4.5000%, 10/1/44	2,202,092	2,400,107
4.5000%, 10/1/44	1,244,823	1,350,196
3.5000%, 2/1/45	3,515,483	3,623,717
4.5000%, 3/1/45	2,170,585	2,354,371
4.0000%, 5/1/45	1,675,445	1,778,876
4.5000%, 5/1/45	1,875,920	2,044,556
4.5000%, 5/1/45	1,224,143	1,339,040
4.5000%, 6/1/45	1,130,944	1,235,782
4.5000%, 9/1/45	752,928	816,742
4.0000%, 10/1/45	3,795,470	4,017,796
4.5000%, 10/1/45	2,482,919	2,737,432
3.5000%, 12/1/45	1,105,898	1,139,110
4.0000%, 12/1/45	1,554,039	1,649,969
3.5000%, 1/1/46	2,939,963	3,027,705
3.5000%, 1/1/46	2,503,681	2,578,424
4.0000%, 1/1/46	715,890	758,190
4.5000%, 2/1/46	3,389,115	3,695,427
4.5000%, 2/1/46	1,433,187	1,556,797
4.0000%, 4/1/46	1,900,866	2,020,450
4.5000%, 4/1/46	1,821,708	1,997,999
4.0000%, 5/1/46	2,300,818	2,437,527
4.0000%, 6/1/46	785,574	833,482
3.5000%, 7/1/46	2,001,984	2,059,013
3.5000%, 7/1/46	1,983,163	2,042,590
4.5000%, 7/1/46	1,439,358	1,561,021
3.5000%, 8/1/46	1,209,201	1,241,277
		136,144,696
Freddie Mac Gold Pool:		
5.0000%, 6/1/20	184,638	193,016
5.5000%, 12/1/28	533,549	591,090
3.5000%, 7/1/29	1,076,720	1,125,394
8.0000%, 4/1/32	273,293	345,133
5.5000%, 10/1/36	466,216	528,908
6.0000%, 4/1/40	2,393,727	2,793,717
5.5000%, 5/1/41	1,040,481	1,154,068
5.5000%, 8/1/41	2,308,856	2,650,875
5.5000%, 8/1/41	1,548,977	1,758,479
5.5000%, 9/1/41	350,105	388,267
5.0000%, 3/1/42	1,126,652	1,252,013
3.5000%, 2/1/44	1,380,583	1,421,364

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Mortgage-Backed Securities – (continued)		
Freddie Mac Gold Pool – (continued)		
4.5000%, 5/1/44	\$1,326,622	\$1,440,689
5.0000%, 7/1/44	965,142	1,070,463
4.0000%, 8/1/44	884,262	936,189
4.5000%, 9/1/44	4,233,373	4,631,682
4.5000%, 6/1/45	1,908,753	2,088,678
4.5000%, 2/1/46	2,108,667	2,307,900
4.5000%, 2/1/46	1,313,327	1,424,728
3.5000%, 7/1/46	3,987,574	4,101,446
		32,204,099
Ginnie Mae I Pool:		
5.1000%, 1/15/32	992,301	1,132,089
7.5000%, 8/15/33	980,218	1,144,626
4.9000%, 10/15/34	1,086,692	1,239,120
5.5000%, 9/15/35	119,275	137,052
5.5000%, 3/15/36	494,997	558,621
5.5000%, 2/15/39	720,656	812,074
5.5000%, 8/15/39	2,126,547	2,470,664
5.5000%, 8/15/39	691,191	802,946
5.0000%, 10/15/39	460,161	509,124
5.5000%, 10/15/39	787,448	897,675
5.0000%, 11/15/39	728,383	799,354
5.0000%, 1/15/40	251,084	276,284
5.0000%, 5/15/40	268,534	298,813
5.0000%, 5/15/40	105,011	116,982
5.0000%, 7/15/40	774,740	850,491
5.0000%, 7/15/40	224,968	247,371
5.0000%, 2/15/41	816,270	900,405
5.0000%, 4/15/41	319,359	351,216
4.5000%, 5/15/41	1,528,900	1,725,419
5.0000%, 5/15/41	308,690	343,225
4.5000%, 7/15/41	728,898	828,766
4.5000%, 7/15/41	231,574	256,700
4.5000%, 8/15/41	2,081,336	2,298,614
5.0000%, 9/15/41	202,314	226,325
5.0000%, 11/15/43	1,449,497	1,627,991
4.5000%, 5/15/44	948,750	1,039,086
5.0000%, 6/15/44	1,454,901	1,625,324
5.0000%, 6/15/44	517,778	577,508
5.0000%, 7/15/44	595,227	663,529
4.0000%, 1/15/45	4,659,118	4,978,743
4.0000%, 4/15/45	760,796	826,587
4.0000%, 7/15/46	2,882,732	3,123,211
4.5000%, 8/15/46	5,088,169	5,573,640
		39,259,575
Ginnie Mae II Pool:		
6.0000%, 11/20/34	463,821	540,638
5.5000%, 11/20/37	513,410	573,688
6.0000%, 1/20/39	192,261	215,763
7.0000%, 5/20/39	107,331	126,206
4.5000%, 10/20/41	1,335,590	1,426,579
6.0000%, 12/20/41	219,458	250,950
5.5000%, 1/20/42	486,470	542,439
6.0000%, 1/20/42	223,306	254,145
6.0000%, 2/20/42	182,561	206,747
6.0000%, 3/20/42	159,696	182,077
6.0000%, 4/20/42	630,036	723,484
3.5000%, 5/20/42	513,710	538,107
5.5000%, 5/20/42	654,621	725,518
6.0000%, 5/20/42	266,716	303,162

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Mortgage-Backed Securities – (continued)		
Ginnie Mae II Pool – (continued)		
5.5000%, 7/20/42	\$814,248	\$892,334
6.0000%, 7/20/42	171,770	192,411
6.0000%, 8/20/42	188,011	214,973
6.0000%, 9/20/42	397,398	454,796
6.0000%, 11/20/42	166,939	190,462
6.0000%, 2/20/43	244,201	278,998
3.5000%, 9/20/44	1,482,632	1,553,165
5.0000%, 12/20/44	843,224	949,454
5.0000%, 9/20/45	594,287	669,809
4.0000%, 10/20/45	1,861,953	2,006,894
		14,012,799
Total Mortgage-Backed Securities (cost \$222,933,918)		221,621,169
United States Treasury Notes/Bonds – 3.1%		
0.7500%, 10/31/18	9,315,000	9,246,302
1.0000%, 11/30/18	15,932,000	15,877,688
1.0000%, 11/15/19	9,356,000	9,238,947
1.2500%, 10/31/21	9,498,000	9,200,931
2.5000%, 5/15/24	3,752,000	3,803,312
2.0000%, 2/15/25	1,244,000	1,209,098
2.2500%, 11/15/25	15,906,000	15,679,212
1.6250%, 2/15/26	2,463,000	2,297,834
2.2500%, 8/15/46	11,620,000	9,745,357
2.8750%, 11/15/46	5,473,000	5,271,019
Total United States Treasury Notes/Bonds (cost \$81,918,255)		81,569,700
Common Stocks – 62.6%		
Aerospace & Defense – 4.7%		
Boeing Co	434,103	67,581,155
General Dynamics Corp	151,160	26,099,286
Northrop Grumman Corp	123,642	28,756,656
		122,437,097
Air Freight & Logistics – 0.7%		
United Parcel Service Inc	169,208	19,398,005
Automobiles – 1.6%		
General Motors Co	1,219,565	42,489,645
Banks – 1.3%		
US Bancorp	641,779	32,968,187
Biotechnology – 2.9%		
AbbVie Inc	315,195	19,737,511
Amgen Inc	393,035	57,465,647
		77,203,158
Capital Markets – 5.7%		
Blackstone Group LP	921,150	24,898,684
CME Group Inc	480,888	55,470,431
Morgan Stanley	820,498	34,666,040
TD Ameritrade Holding Corp	820,830	35,788,188
		150,823,343
Chemicals – 2.0%		
LyondellBasell Industries NV	625,634	53,666,885
Construction Materials – 0.3%		
Vulcan Materials Co	67,854	8,491,928
Consumer Finance – 1.7%		
Synchrony Financial	1,219,991	44,249,074
Equity Real Estate Investment Trusts (REITs) – 1.6%		
Colony Starwood Homes	177,602	5,116,714
Crown Castle International Corp	133,312	11,567,482
MGM Growth Properties LLC	313,241	7,928,130
Outfront Media Inc	658,277	16,371,349
		40,983,675

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Principal Amounts	Value
Common Stocks – (continued)		
Food & Staples Retailing – 3.1%		
Costco Wholesale Corp	308,209	\$49,347,343
Kroger Co	537,866	18,561,756
Sysco Corp	248,168	13,741,062
		81,650,161
Food Products – 0.9%		
Hershey Co	233,058	24,105,189
Health Care Equipment & Supplies – 1.3%		
Medtronic PLC	465,833	33,181,285
Health Care Providers & Services – 0.8%		
Aetna Inc	178,655	22,155,007
Hotels, Restaurants & Leisure – 2.3%		
McDonald's Corp	74,990	9,127,783
Norwegian Cruise Line Holdings Ltd*	358,846	15,261,720
Six Flags Entertainment Corp	235,666	14,130,533
Starbucks Corp	408,431	22,676,089
		61,196,125
Household Products – 0.8%		
Kimberly-Clark Corp	190,485	21,738,148
Industrial Conglomerates – 1.6%		
Honeywell International Inc	358,941	41,583,315
Information Technology Services – 4.0%		
Accenture PLC	193,330	22,644,743
Automatic Data Processing Inc	145,490	14,953,462
Mastercard Inc	649,881	67,100,213
		104,698,418
Internet & Direct Marketing Retail – 1.4%		
Priceline Group Inc*	25,357	37,174,883
Internet Software & Services – 2.0%		
Alphabet Inc - Class C*	69,254	53,451,622
Leisure Products – 1.0%		
Hasbro Inc	158,615	12,338,661
Mattel Inc	494,819	13,632,263
		25,970,924
Media – 2.7%		
Comcast Corp	610,729	42,170,837
Madison Square Garden Co*	38,190	6,549,967
Time Warner Inc	226,142	21,829,487
		70,550,291
Mortgage Real Estate Investment Trusts (REITs) – 0.7%		
Colony Capital Inc	848,187	17,175,787
Multiline Retail – 0.8%		
Dollar Tree Inc*	282,240	21,783,283
Personal Products – 0.5%		
Estee Lauder Cos Inc	165,534	12,661,696
Pharmaceuticals – 2.3%		
Allergan plc	62,663	13,159,857
Bristol-Myers Squibb Co	682,610	39,891,728
Eli Lilly & Co	104,116	7,657,732
		60,709,317
Real Estate Management & Development – 0.9%		
CBRE Group Inc*	743,516	23,413,319
Colony American Homes III <sup>§</sup>	639,963	660,096
		24,073,415
Road & Rail – 1.2%		
CSX Corp	850,647	30,563,747
Software – 4.7%		
Adobe Systems Inc*	392,855	40,444,422
Microsoft Corp	1,345,018	83,579,419
		124,023,841

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Schedule of Investments

### December 31, 2016

	<i>Shares or Principal Amounts</i>	<i>Value</i>
Common Stocks – (continued)		
Specialty Retail – 1.3%		
Home Depot Inc	263,246	\$35,296,024
Technology Hardware, Storage & Peripherals – 1.5%		
Apple Inc	334,535	38,745,844
Textiles, Apparel & Luxury Goods – 1.9%		
NIKE Inc	991,842	50,415,329
Tobacco – 2.4%		
Altria Group Inc	921,772	62,330,223
Total Common Stocks (cost \$1,360,238,161)		1,647,944,871
Preferred Stocks – 0.3%		
Banks – 0.1%		
Citigroup Capital XIII, 7.2573%	162,000	4,182,840
Capital Markets – 0.1%		
Morgan Stanley, 6.8750%	30,000	811,200
Morgan Stanley, 7.1250%	32,000	900,160
		1,711,360
Consumer Finance – 0.1%		
Discover Financial Services, 6.5000%	95,000	2,439,600
Industrial Conglomerates – 0%		
General Electric Co, 4.7000%	10,000	245,600
Total Preferred Stocks (cost \$8,456,393)		8,579,400
Investment Companies – 0.6%		
Money Markets – 0.6%		
Janus Cash Liquidity Fund LLC, 0.4708% <sup>ess</sup> (cost \$14,816,076)	14,816,076	14,816,076
U.S. Government Agency Notes – 3.7%		
United States Treasury Bill:		
0%, 3/16/17 <sup>o</sup>	\$14,829,000	14,814,171
0%, 6/22/17 <sup>o</sup>	795,000	792,675
0%, 11/9/17 <sup>o</sup>	83,318,000	82,764,445
Total U.S. Government Agency Notes (cost \$98,427,547)		98,371,291
Total Investments (total cost \$2,344,956,861) – 100.0%		2,632,025,092
Liabilities, net of Cash, Receivables and Other Assets – (0)%		(314,073)
Net Assets – 100%		\$2,631,711,019

#### Summary of Investments by Country - (Long Positions) (unaudited)

<i>Country</i>	<i>Value</i>	<i>% of Investment Securities</i>
United States	\$2,575,873,747	97.9 %
Belgium	11,833,389	0.4
Netherlands	9,437,079	0.4
United Kingdom	8,330,767	0.3
Taiwan	6,247,651	0.2
Singapore	5,840,098	0.2
France	5,046,363	0.2
Canada	4,233,599	0.2
Switzerland	2,607,552	0.1
Germany	2,215,966	0.1
Luxembourg	195,058	0.0
Hong Kong	163,823	0.0
Total	\$2,632,025,092	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Notes to Schedule of Investments and Other Information

Balanced Index	An internally-calculated, hypothetical combination of total returns from the S&P 500 <sup>®</sup> Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%).
Bloomberg Barclays U.S. Aggregate Bond Index	Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
S&P 500 <sup>®</sup> Index	Measures broad U.S. equity performance.
LLC	Limited Liability Company
LP	Limited Partnership
PLC	Public Limited Company
ULC	Unlimited Liability Company
144A	Securities sold under Rule 144A of the Securities Act of 1933, as amended, are subject to legal and/or contractual restrictions on resale and may not be publicly sold without registration under the 1933 Act. Unless otherwise noted, these securities have been determined to be liquid under guidelines established by the Board of Trustees. The total value of 144A securities as of the year ended December 31, 2016 is \$136,677,294, which represents 5.2% of net assets.
*	Non-income producing security.
(a)	All or a portion of this position has not settled, or is not funded. Upon settlement or funding date, interest rates for unsettled or unfunded amounts will be determined. Interest and dividends will not be accrued until time of settlement or funding.
‡	The interest rate on floating rate notes is based on an index or market interest rates and is subject to change. Rate in the security description is as of December 31, 2016.
ÇÇ	Security is a U.S. Treasury Inflation-Protected Security (TIPS).
∞	Rate shown is the 7-day yield as of December 31, 2016.
μ	This variable rate security is a perpetual bond. Perpetual bonds have no contractual maturity date, are not redeemable, and pay an indefinite stream of interest. The coupon rate shown represents the current interest rate.
Ç	Step bond. The coupon rate will increase or decrease periodically based upon a predetermined schedule. The rate shown reflects the current rate.
◇	Zero coupon bond.
£	The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	<i>Share Balance at 12/31/15</i>	<i>Purchases</i>	<i>Sales</i>	<i>Share Balance at 12/31/16</i>	<i>Realized Gain/(Loss)</i>	<i>Dividend Income</i>	<i>Value at 12/31/16</i>
Janus Cash Liquidity Fund LLC	66,697,739	853,176,126	(905,057,789)	14,816,076	\$—	\$102,020	\$14,816,076

# Janus Aspen Balanced Portfolio

## Notes to Schedule of Investments and Other Information

§ Schedule of Restricted and Illiquid Securities (as of December 31, 2016)

	<i>Acquisition Date</i>	<i>Cost</i>	<i>Value</i>	<i>Value as a % of Net Assets</i>
Colony American Homes III	1/30/13	\$ 803,249	\$ 660,096	0.0%
FREMF 2010 K-SCT Mortgage Trust, 2.0000%, 1/25/20	4/29/13	1,024,179	1,025,499	0.1
Total		\$ 1,827,428	\$ 1,685,595	0.1%

The Portfolio has registration rights for certain restricted securities held as of December 31, 2016. The issuer incurs all registration costs.

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2016. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

	<i>Level 1 - Quotes Prices</i>	<i>Level 2 - Other Significant Observable Inputs</i>	<i>Level 3 - Significant Unobservable Inputs</i>
<b>Assets</b>			
<b>Investments in Securities</b>			
<i>Asset-Backed/Commercial Mortgage-Backed Securities</i>	\$ -	\$ 70,796,665	\$ -
<i>Bank Loans and Mezzanine Loans</i>	-	47,400,134	-
<i>Corporate Bonds</i>	-	425,800,409	-
<i>Inflation-Indexed Bonds</i>	-	15,125,377	-
<i>Mortgage-Backed Securities</i>	-	221,621,169	-
<i>United States Treasury Notes/Bonds</i>	-	81,569,700	-
<i>Common Stocks</i>			
Real Estate Management & Development	23,413,319	-	660,096
All Other	1,623,871,456	-	-
<i>Preferred Stocks</i>	-	8,579,400	-
<i>Investment Companies</i>	-	14,816,076	-
<i>U.S. Government Agency Notes</i>	-	98,371,291	-
<b>Total Assets</b>	<b>\$ 1,647,284,775</b>	<b>\$ 984,080,221</b>	<b>\$ 660,096</b>



# Janus Aspen Balanced Portfolio

## Statement of Assets and Liabilities

### December 31, 2016

Assets:		
Investments, at cost	\$	2,344,956,861
Unaffiliated investments, at value		2,617,209,016
Affiliated investments, at value		14,816,076
Cash		163,894
Non-interested Trustees' deferred compensation		48,834
Receivables:		
Investments sold		13,217,048
Interest		6,191,069
Dividends		3,594,331
Portfolio shares sold		735,119
Foreign tax reclaims		15,227
Dividends from affiliates		12,677
Other assets		29,568
<b>Total Assets</b>		<b>2,656,032,859</b>
Liabilities:		
Payables:		
Investments purchased		21,866,926
Advisory fees		1,280,167
12b-1 Distribution and shareholder servicing fees		490,370
Portfolio shares repurchased		402,781
Transfer agent fees and expenses		120,625
Non-interested Trustees' deferred compensation fees		48,834
Professional fees		34,908
Portfolio administration fees		22,112
Non-interested Trustees' fees and expenses		19,364
Custodian fees		3,336
Accrued expenses and other payables		32,417
<b>Total Liabilities</b>		<b>24,321,840</b>
<b>Net Assets</b>	<b>\$</b>	<b>2,631,711,019</b>
Net Assets Consist of:		
Capital (par value and paid-in surplus)	\$	2,333,790,025
Undistributed net investment income/(loss)		12,374,394
Undistributed net realized gain/(loss) from investments and foreign currency transactions		(1,525,749)
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		287,072,349
<b>Total Net Assets</b>	<b>\$</b>	<b>2,631,711,019</b>
<b>Net Assets - Institutional Shares</b>	<b>\$</b>	<b>403,833,121</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		13,319,900
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>30.32</b>
<b>Net Assets - Service Shares</b>	<b>\$</b>	<b>2,227,877,898</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		69,869,257
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>31.89</b>

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Statement of Operations

### For the year ended December 31, 2016

Investment Income:		
Dividends	\$	33,322,318
Interest		26,917,930
Dividends from affiliates		102,020
Other income		262,233
<b>Total Investment Income</b>		<b>60,604,501</b>
Expenses:		
Advisory fees		12,909,963
12b-1 Distribution and shareholder servicing fees:		
Service Shares		4,838,431
Transfer agent administrative fees and expenses:		
Institutional Shares		138,695
Service Shares		676,687
Other transfer agent fees and expenses:		
Institutional Shares		7,144
Service Shares		18,459
Portfolio administration fees		211,812
Professional fees		85,664
Non-interested Trustees' fees and expenses		75,012
Shareholder reports expense		57,021
Custodian fees		28,775
Registration fees		20,144
Other expenses		408,412
<b>Total Expenses</b>		<b>19,476,219</b>
<b>Net Investment Income/(Loss)</b>		<b>41,128,282</b>
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		3,486,187
<b>Total Net Realized Gain/(Loss) on Investments</b>		<b>3,486,187</b>
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		58,375,166
<b>Total Change in Unrealized Net Appreciation/Depreciation</b>		<b>58,375,166</b>
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>\$</b>	<b>102,989,635</b>

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Statements of Changes in Net Assets

	<i>Year ended</i>		<i>Year ended</i>	
	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
Operations:				
Net investment income/(loss)	\$	41,128,282	\$	38,891,345
Net realized gain/(loss) on investments		3,486,187		25,746,146
Change in unrealized net appreciation/depreciation		58,375,166		(59,661,731)
Net Increase/(Decrease) in Net Assets Resulting from Operations		102,989,635		4,975,760
Dividends and Distributions to Shareholders:				
Dividends from Net Investment Income				
Institutional Shares		(9,062,439)		(7,464,551)
Service Shares		(39,619,594)		(23,906,755)
Total Dividends from Net Investment Income		(48,682,033)		(31,371,306)
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(6,034,450)		(15,890,685)
Service Shares		(26,828,177)		(54,459,823)
Total Distributions from Net Realized Gain from Investment Transactions		(32,862,627)		(70,350,508)
Net Decrease from Dividends and Distributions to Shareholders		(81,544,660)		(101,721,814)
Capital Share Transactions:				
Institutional Shares		(42,473,989)		(11,017,373)
Service Shares		376,338,116		680,114,575
Net Increase/(Decrease) from Capital Share Transactions		333,864,127		669,097,202
Net Increase/(Decrease) in Net Assets		355,309,102		572,351,148
Net Assets:				
Beginning of period		2,276,401,917		1,704,050,769
End of period	\$	2,631,711,019	\$	2,276,401,917
Undistributed Net Investment Income/(Loss)	\$	12,374,394	\$	20,123,919

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Financial Highlights

### Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$30.08	\$31.43	\$30.26	\$27.17	\$26.62
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.58 <sup>(1)</sup>	0.63 <sup>(1)</sup>	0.62 <sup>(1)</sup>	0.56	1.14
Net realized and unrealized gain/(loss)	0.77	(0.41)	1.92	4.67	2.30
Total from Investment Operations	1.35	0.22	2.54	5.23	3.44
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.67)	(0.50)	(0.55)	(0.45)	(0.80)
Distributions (from capital gains)	(0.44)	(1.07)	(0.82)	(1.69)	(2.09)
Total Dividends and Distributions	(1.11)	(1.57)	(1.37)	(2.14)	(2.89)
Net Asset Value, End of Period	\$30.32	\$30.08	\$31.43	\$30.26	\$27.17
Total Return*	4.60%	0.62%	8.54%	20.11%	13.66%
Net Assets, End of Period (in thousands)	\$403,833	\$444,472	\$475,807	\$475,100	\$435,689
Average Net Assets for the Period (in thousands)	\$413,338	\$467,346	\$472,445	\$455,356	\$509,335
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.62%	0.58%	0.58%	0.58%	0.60%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.62%	0.58%	0.58%	0.58%	0.60%
Ratio of Net Investment Income/(Loss)	1.94%	2.03%	2.01%	1.87%	2.23%
Portfolio Turnover Rate	80%	73%	87%	76%	77%

### Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$31.61	\$32.97	\$31.72	\$28.42	\$27.74
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.53 <sup>(1)</sup>	0.58 <sup>(1)</sup>	0.57 <sup>(1)</sup>	0.58	0.57
Net realized and unrealized gain/(loss)	0.80	(0.42)	2.00	4.82	2.94
Total from Investment Operations	1.33	0.16	2.57	5.40	3.51
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.61)	(0.45)	(0.50)	(0.41)	(0.74)
Distributions (from capital gains)	(0.44)	(1.07)	(0.82)	(1.69)	(2.09)
Total Dividends and Distributions	(1.05)	(1.52)	(1.32)	(2.10)	(2.83)
Net Asset Value, End of Period	\$31.89	\$31.61	\$32.97	\$31.72	\$28.42
Total Return*	4.32%	0.41%	8.24%	19.80%	13.37%
Net Assets, End of Period (in thousands)	\$2,227,878	\$1,831,930	\$1,228,244	\$863,259	\$494,722
Average Net Assets for the Period (in thousands)	\$1,938,234	\$1,645,283	\$1,013,680	\$596,154	\$533,254
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.87%	0.84%	0.84%	0.84%	0.85%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.87%	0.84%	0.84%	0.84%	0.85%
Ratio of Net Investment Income/(Loss)	1.71%	1.79%	1.77%	1.62%	2.00%
Portfolio Turnover Rate	80%	73%	87%	76%	77%

\* Total return not annualized for periods of less than one full year.

\*\* Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

See Notes to Financial Statements.

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Balanced Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term capital growth, consistent with preservation of capital and balanced by current income. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2016 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio did not hold a significant amount of Level 3 securities as of December 31, 2016.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

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.

### Indemnifications

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

### Foreign Currency Translations

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

### Dividends and Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

### Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, options on recovery locks, options on security and commodity indices, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the year ended December 31, 2016 is discussed in further detail below. A summary of derivative activity by the Portfolio is reflected in the tables at the end of this section.

The Portfolio may use derivative instruments for hedging purposes (to offset risks associated with an investment, currency exposure, or market conditions), to adjust currency exposure relative to a benchmark index, or for speculative purposes (to earn income and seek to enhance returns). When the Portfolio invests in a derivative for speculative purposes, the Portfolio will be fully exposed to the risks of loss of that derivative, which may sometimes be greater than the derivative's cost. The Portfolio may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. The Portfolio's ability to use derivative instruments may also be limited by tax considerations.

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks.

In pursuit of its investment objective, the Portfolio may seek to use derivatives to increase or decrease exposure to the following market risk factors:

- **Commodity Risk** – the risk related to the change in value of commodities or commodity-linked investments due to changes in the overall market movements, volatility of the underlying benchmark, changes in interest rates, or other factors affecting a particular industry of commodity such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.
- **Counterparty Risk** – the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be unable to honor its financial obligation to the Portfolio.
- **Credit Risk** – the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.
- **Currency Risk** – the risk that changes in the exchange rate between currencies will adversely affect the value (in U.S. dollar terms) of an investment.
- **Equity Risk** – the risk related to the change in value of equity securities as they relate to increases or decreases in the general market.
- **Index Risk** – if the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the Portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.
- **Interest Rate Risk** – the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause the Portfolio's NAV to likewise decrease.
- **Leverage Risk** – the risk associated with certain types of leveraged investments or trading strategies pursuant to which relatively small market movements may result in large changes in the value of an investment. The Portfolio creates leverage by investing in instruments, including derivatives, where the investment loss can exceed the original amount invested. Certain investments or trading strategies, such as short sales, that involve leverage can result in losses that greatly exceed the amount originally invested.
- **Liquidity Risk** – the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs. OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk.

In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital's ability to establish and maintain appropriate systems and trading.

### Forward Foreign Currency Exchange Contracts

A forward foreign currency exchange contract ("forward currency contract") is an obligation to buy or sell a specified currency at a future date at a negotiated rate (which may be U.S. dollars or a foreign currency). The Portfolio may enter into forward currency contracts for hedging purposes, including, but not limited to, reducing exposure to changes in foreign currency exchange rates on foreign portfolio holdings and locking in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in or exposed to foreign currencies. The Portfolio may also invest in



# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

forward currency contracts for nonhedging purposes such as seeking to enhance returns. The Portfolio is subject to currency risk and counterparty risk in the normal course of pursuing its investment objective through its investments in forward currency contracts.

Forward currency contracts are valued by converting the foreign value to U.S. dollars by using the current spot U.S. dollar exchange rate and/or forward rate for that currency. Exchange and forward rates as of the close of the NYSE shall be used to value the forward currency contracts. The unrealized appreciation/(depreciation) for forward currency contracts is reported in the Statement of Assets and Liabilities as a receivable or payable and in the Statement of Operations for the change in unrealized net appreciation/depreciation (if applicable). The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing a forward currency contract is reported on the Statement of Operations (if applicable).

During the year, the Portfolio entered into forward currency contracts with the obligation to sell foreign currencies in the future at an agreed upon rate in order to decrease exposure to currency risk associated with foreign currency denominated securities held by the Portfolio.

During the year ended December 31, 2016, the average ending monthly currency value amounts on sold forward currency contracts is \$4,605,498. There were no forward currency contracts held at December 31, 2016.

The following table provides information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the year ended December 31, 2016.

### The effect of Derivative Instruments (not accounted for as hedging instruments) on the Statement of Operations for the year ended December 31, 2016

<i>Amount of Realized Gain/(Loss) Recognized on Derivatives</i>	
<i>Derivative</i>	<i>Currency Contracts</i>
Investments and foreign currency transactions	\$ 510,766 <sup>(a)</sup>

<i>Amount of Change in Unrealized Appreciation/Depreciation Recognized on Derivatives</i>	
<i>Derivative</i>	<i>Currency Contracts</i>
Investments, foreign currency translations and non-interested Trustees' deferred compensation	\$(289,719) <sup>(a)</sup>

(a) Amounts relate to forward currency contracts.

Please see the "Net Realized Gain/(Loss) on Investments" and "Change in Unrealized Net Appreciation/Depreciation" sections of the Portfolio's Statement of Operations.

### 3. Other Investments and Strategies

#### Additional Investment Risk

The Portfolio may be invested in lower-rated debt securities that have a higher risk of default or loss of value since these securities may be sensitive to economic changes, political changes, or adverse developments specific to the issuer.

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment

## Janus Aspen Balanced Portfolio

### Notes to Financial Statements

objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union (“EU”) have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more “bailouts” from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as “Brexit”). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

#### Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio (“counterparty risk”). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

### Loans

The Portfolio may invest in various commercial loans, including bank loans, bridge loans, debtor-in-possession ("DIP") loans, mezzanine loans, and other fixed and floating rate loans. These loans may be acquired through loan participations and assignments or on a when-issued basis. Commercial loans will comprise no more than 20% of the Portfolio's total assets. Below are descriptions of the types of loans held by the Portfolio as of December 31, 2016.

- **Bank Loans** - Bank loans are obligations of companies or other entities entered into in connection with recapitalizations, acquisitions, and refinancings. The Portfolio's investments in bank loans are generally acquired as a participation interest in, or assignment of, loans originated by a lender or other financial institution. These investments may include institutionally-traded floating and fixed-rate debt securities.
- **Floating Rate Loans** - Floating rate loans are debt securities that have floating interest rates, that adjust periodically, and are tied to a benchmark lending rate, such as London Interbank Offered Rate ("LIBOR"). In other cases, the lending rate could be tied to the prime rate offered by one or more major U.S. banks or the rate paid on large certificates of deposit traded in the secondary markets. If the benchmark lending rate changes, the rate payable to lenders under the loan will change at the next scheduled adjustment date specified in the loan agreement. Floating rate loans are typically issued to companies ("borrowers") in connection with recapitalizations, acquisitions, and refinancings. Floating rate loan investments are generally below investment grade. Senior floating rate loans are secured by specific collateral of a borrower and are senior in the borrower's capital structure. The senior position in the borrower's capital structure generally gives holders of senior loans a claim on certain of the borrower's assets that is senior to subordinated debt and preferred and common stock in the case of a borrower's default. Floating rate loan investments may involve foreign borrowers, and investments may be denominated in foreign currencies. Floating rate loans often involve borrowers whose financial condition is troubled or uncertain and companies that are highly leveraged. The Portfolio may invest in obligations of borrowers who are in bankruptcy proceedings. While the Portfolio generally expects to invest in fully funded term loans, certain of the loans in which the Portfolio may invest include revolving loans, bridge loans, and delayed draw term loans.

Purchasers of floating rate loans may pay and/or receive certain fees. The Portfolio may receive fees such as covenant waiver fees or prepayment penalty fees. The Portfolio may pay fees such as facility fees. Such fees may affect the Portfolio's return.

- **Mezzanine Loans** - Mezzanine loans are secured by the stock of the company that owns the assets. Mezzanine loans are a hybrid of debt and equity financing that is typically used to fund the expansion of existing companies. A mezzanine loan is composed of debt capital that gives the lender the right to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. Mezzanine loans typically are the most subordinated debt obligation in an issuer's capital structure.

### Mortgage- and Asset-Backed Securities

Mortgage- and asset-backed securities represent interests in "pools" of commercial or residential mortgages or other assets, including consumer loans or receivables. The Portfolio may purchase fixed or variable rate commercial or residential mortgage-backed securities issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or other governmental or government-related entities. Ginnie Mae's guarantees are backed by the full faith and credit of the U.S. Government, which means that the U.S. Government guarantees that the interest and principal will be paid when due. Fannie Mae and Freddie Mac securities are not backed by the full faith and credit of the U.S. Government. In September 2008, the Federal Housing Finance Agency ("FHFA"), an agency of the U.S. Government, placed Fannie Mae and Freddie Mac under conservatorship. Since that time, Fannie Mae and Freddie Mac have received capital support through U.S. Treasury preferred stock purchases, and Treasury and Federal Reserve purchases of their mortgage-backed securities. The FHFA and the U.S. Treasury have imposed strict limits on the size of these entities' mortgage portfolios. The FHFA has the power to cancel any contract entered into by Fannie Mae and Freddie Mac prior to FHFA's appointment as conservator or receiver, including the guarantee obligations of Fannie Mae and Freddie Mac.

The Portfolio may also purchase other mortgage- and asset-backed securities through single- and multi-seller conduits, collateralized debt obligations, structured investment vehicles, and other similar securities. Asset-backed securities may be backed by various consumer obligations, including automobile loans, equipment leases, credit card receivables, or other collateral. In the event the underlying loans are not paid, the securities' issuer could be forced to sell the assets

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

and recognize losses on such assets, which could impact your return. Unlike traditional debt instruments, payments on these securities include both interest and a partial payment of principal. Mortgage and asset-backed securities are subject to both extension risk, where borrowers pay off their debt obligations more slowly in times of rising interest rates, and prepayment risk, where borrowers pay off their debt obligations sooner than expected in times of declining interest rates. These risks may reduce the Portfolio's returns. In addition, investments in mortgage- and asset backed securities, including those comprised of subprime mortgages, may be subject to a higher degree of credit risk, valuation risk, and liquidity risk than various other types of fixed-income securities. Additionally, although mortgage-backed securities are generally supported by some form of government or private guarantee and/or insurance, there is no assurance that guarantors or insurers will meet their obligations.

### Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

### Restricted Security Transactions

Restricted securities held by the Portfolio may not be sold except in exempt transactions or in a public offering registered under the Securities Act of 1933, as amended. The risk of investing in such securities is generally greater than the risk of investing in the securities of widely held, publicly traded companies. Lack of a secondary market and resale restrictions may result in the inability of the Portfolio to sell a security at a fair price and may substantially delay the sale of the security. In addition, these securities may exhibit greater price volatility than securities for which secondary markets exist.

### Sovereign Debt

The Portfolio may invest in U.S. and foreign government debt securities ("sovereign debt"). Investments in U.S. sovereign debt are considered low risk. However, investments in non-U.S. sovereign debt can involve a high degree of risk, including the risk that the governmental entity that controls the repayment of sovereign debt may not be willing or able to repay the principal and/or to pay the interest on its sovereign debt in a timely manner. A sovereign debtor's willingness or ability to satisfy its debt obligation may be affected by various factors, including its cash flow situation, the extent of its foreign currency reserves, the availability of foreign exchange when a payment is due, the relative size of its debt position in relation to its economy as a whole, the sovereign debtor's policy toward international lenders, and local political constraints to which the governmental entity may be subject. Sovereign debtors may also be dependent on expected disbursements from foreign governments, multilateral agencies, and other entities. The failure of a sovereign debtor to implement economic reforms, achieve specified levels of economic performance, or repay principal or interest when due may result in the cancellation of third party commitments to lend funds to the sovereign debtor, which may further impair such debtor's ability or willingness to timely service its debts. The Portfolio may be requested to participate in the rescheduling of such sovereign debt and to extend further loans to governmental entities, which may adversely affect the Portfolio's holdings. In the event of default, there may be limited or no legal remedies for collecting sovereign debt and there may be no bankruptcy proceedings through which the Portfolio may collect all or part of the sovereign debt that a governmental entity has not repaid.

### When-Issued and Delayed Delivery Securities

The Portfolio may purchase or sell securities on a when-issued or delayed delivery basis. When-issued and delayed delivery securities in which the Portfolio may invest include U.S. Treasury Securities, municipal bonds, bank loans, and other similar instruments. The price of the underlying securities and date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. Losses may arise due to changes in the market value of the securities or from the inability of counterparties to meet the terms of the contract. In connection with such purchases, the Portfolio may hold liquid assets as collateral with the Portfolio's custodian sufficient to cover the purchase price.

### 4. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's contractual investment advisory fee rate (expressed as an annual rate) is 0.55% of its average daily net assets.

## Janus Aspen Balanced Portfolio

### Notes to Financial Statements

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of \$56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2016 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2016 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of \$201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of \$1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2016, the Portfolio engaged in cross trades amounting to \$185,572,220 in purchases and \$41,480,984 in sales, resulting in a net realized loss of \$647,342. The net realized loss is included within the "Net Realized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

### 5. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation, derivatives, and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

<i>Undistributed Ordinary Income</i>	<i>Undistributed Long-Term Gains</i>	<i>Accumulated Capital Losses</i>	<i>Loss Deferrals</i>		<i>Other Book to Tax Differences</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
			<i>Late-Year Ordinary Loss</i>	<i>Post-October Capital Loss</i>		
\$ 12,320,609	\$ 4,078,139	\$ -	\$ -	\$ -	\$ (44,717)	\$281,566,963

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
\$ 2,350,458,129	\$311,489,328	\$(29,922,365)	\$ 281,566,963

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2016*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 48,682,033	\$ 32,862,627	\$ -	\$ -

*For the year ended December 31, 2015*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 37,052,217	\$ 64,669,597	\$ -	\$ -

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

<i>Increase/(Decrease) to Capital</i>	<i>Increase/(Decrease) to Undistributed Net Investment Income/Loss</i>	<i>Increase/(Decrease) to Undistributed Net Realized Gain/Loss</i>
\$ -	\$ (195,774)	\$ 195,774

## 6. Capital Share Transactions

	<i>Year ended December 31, 2016</i>		<i>Year ended December 31, 2015</i>	
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
Institutional Shares:				
Shares sold	1,189,959	\$ 34,459,931	1,101,594	\$ 34,376,815
Reinvested dividends and distributions	513,363	15,096,889	760,784	23,355,236
Shares repurchased	(3,158,269)	(92,030,809)	(2,228,010)	(68,749,424)
Net Increase/(Decrease)	(1,454,947)	\$(42,473,989)	(365,632)	\$(11,017,373)
Service Shares:				
Shares sold	15,605,883	\$491,558,526	22,759,501	\$746,923,739
Reinvested dividends and distributions	2,145,917	66,447,771	2,428,045	78,366,578
Shares repurchased	(5,844,123)	(181,668,181)	(4,476,788)	(145,175,742)
Net Increase/(Decrease)	11,907,677	\$376,338,116	20,710,758	\$680,114,575

# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

### 7. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>	<i>Purchases of Long-Term U.S. Government Obligations</i>	<i>Proceeds from Sales of Long-Term U.S. Government Obligations</i>
\$1,470,225,909	\$1,095,177,517	\$ 619,245,826	\$ 749,921,086

### 8. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.



# Janus Aspen Balanced Portfolio

## Notes to Financial Statements

### 9. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

# Janus Aspen Balanced Portfolio

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Balanced Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Balanced Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") as of December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Denver, Colorado  
February 10, 2017

# Janus Aspen Balanced Portfolio

## Additional Information (unaudited)

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at [janus.com/proxyvoting](http://janus.com/proxyvoting); and (iii) on the SEC's website at <http://www.sec.gov>. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through [janus.com/proxyvoting](http://janus.com/proxyvoting) and from the SEC's website at <http://www.sec.gov>.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at <http://www.sec.gov>; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's

## Janus Aspen Balanced Portfolio

### Additional Information (unaudited)

business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

# Janus Aspen Balanced Portfolio

## Additional Information (unaudited)

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The

## Janus Aspen Balanced Portfolio

### Additional Information (unaudited)

term “unfair burden” is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an “unfair burden” will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds’ shareholders (the “Meetings”), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds’ shareholders for their approval.

#### ***Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period***

In the event shareholders of a Fund do not approve such Fund’s New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an “Interim Advisory Agreement” and collectively, the “Interim Advisory Agreements”) and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an “Interim Sub-Advisory Agreement” and collectively, the “Interim Sub-Advisory Agreements”) take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the “150-day period”) or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

#### ***Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio***

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the “Amended Advisory Agreement”) between Janus Capital and the Trust on behalf of

## Janus Aspen Balanced Portfolio

### Additional Information (unaudited)

Janus Portfolio (for the purposes of this section, the “Fund” refers to Janus Portfolio) and other matters related to the proposed changes to the Fund’s name, principal investment strategies, and portfolio management team (the “Realignment”). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board’s consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see “Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period” above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the “Full Performance Rate”) and cumulative investment record of the Fund’s benchmark index (the “Performance Fee Benchmark”);
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund’s investment team will be able to more efficiently manage the Fund’s portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital’s belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund’s current investment approach;
- the Realignment was being proposed as part of Janus Capital’s efforts to streamline its product line;
- Janus Capital’s belief that the Fund would benefit from Janus Capital’s operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund’s portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund’s portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

# Janus Aspen Balanced Portfolio

## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2016. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical \$10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, swaptions, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.



# Janus Aspen Balanced Portfolio

## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

### Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

### Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

### Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the

## **Janus Aspen Balanced Portfolio**

### **Useful Information About Your Portfolio Report (unaudited)**

period. The next line reflects the total return for the period. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

## Janus Aspen Balanced Portfolio

### Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

#### Proposal

To elect eight Trustees, each of whom is considered "independent."

Trustees	Record Date	Votes (\$)	Number of Votes (\$)		
			Affirmative	Withheld	Total
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536	
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536	
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536	
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536	
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536	
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536	
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536	
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536	

Trustees	Votes (%)			Percentage Voted (%)		
	Affirmative	Withheld	Total	Affirmative	Withheld	Total
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

## Janus Aspen Balanced Portfolio

### Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Capital Gain Distributions	\$32,862,627
Dividends Received Deduction Percentage	60%

## **Janus Aspen Balanced Portfolio**

### **Trustees and Officers (unaudited)**

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman	1/08-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
	Trustee	6/02-Present			

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	58	Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11-Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	58	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).



# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16- Present	Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16- Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	58	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	58	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Jeremiah Buckley 151 Detroit Street Denver, CO 80206 DOB: 1976	Executive Vice President and Co-Portfolio Manager Janus Aspen Balanced Portfolio	12/15-Present	Portfolio Manager for other Janus accounts.
Marc Pinto 151 Detroit Street Denver, CO 80206 DOB: 1961	Executive Vice President and Co-Portfolio Manager Janus Aspen Balanced Portfolio	5/05-Present	Vice President of Janus Capital and Portfolio Manager for other Janus accounts.
Mayur Saigal 151 Detroit Street Denver, CO 80206 DOB: 1975	Executive Vice President and Co-Portfolio Manager Janus Aspen Balanced Portfolio	12/15-Present	Portfolio Manager for other Janus accounts and Analyst for Janus Capital.
Darrell Watters 151 Detroit Street Denver, CO 80206 DOB: 1963	Executive Vice President and Co-Portfolio Manager Janus Aspen Balanced Portfolio	12/15-Present	Vice President of Janus Capital and Portfolio Manager for other Janus accounts.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer  Vice President, Treasurer, and Principal Accounting Officer	3/05-Present  2/05-Present	Vice President of Janus Capital and Janus Services LLC.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Balanced Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## Janus provides access to a wide range of investment disciplines.

### Alternative

Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

### Asset Allocation

Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

### Fixed Income

Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

### Global & International

Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

### Growth & Core

Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

### Mathematical

Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH<sup>®</sup> (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

### Value

Our value funds, managed by Perkins<sup>®</sup> (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to [janus.com/variable-insurance](http://janus.com/variable-insurance).**



**JANUS<sup>®</sup>**

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from [janus.com/variable-insurance](http://janus.com/variable-insurance). Read it carefully before you invest or send money.*

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Funds distributed by Janus Distributors LLC

Investment products offered are: 

NOT FDIC-INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
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# Janus Aspen Enterprise Portfolio

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Janus Aspen Series

## HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings



**JANUS®**



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# Janus Aspen Enterprise Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe that investing in companies with sustainable growth and high return on invested capital can drive consistent returns and allow us to outperform our benchmark and peers over time with moderate risk. We seek to identify mid-cap companies with high-quality management teams that wisely allocate capital to fund and drive growth over time.



Philip Cody Wheaton  
co-portfolio manager

Brian Demain  
co-portfolio manager

## PERFORMANCE OVERVIEW

During the 12 months ended December 31, 2016, Janus Aspen Enterprise Portfolio's Institutional Shares and Service Shares returned 12.36% and 12.10%, respectively. Meanwhile, the Portfolio's benchmark, the Russell Midcap Growth Index, returned 7.33%.

## INVESTMENT ENVIRONMENT

Stocks registered gains in 2016, but experienced brief bouts of volatility. Equities started the year lower due to concerns about the health of the Chinese economy and fear about how falling oil prices could affect the energy sector. The UK's decision to leave the European Union (EU) in June's "Brexit" referendum jolted markets, but investors soon regained their composure and sent shares higher. Stocks climbed after the November U.S. presidential election, on the expectation that the new administration would champion pro-growth initiatives.

A recovery in crude oil and other commodity prices after the early-year plunge propelled energy and materials stocks, resulting in those sectors being among the year's best performers. Other cyclical sectors also registered gains. Given the bias toward improving economic growth, several historically defensive sectors lagged the broader market.

## PERFORMANCE DISCUSSION

The portfolio outperformed its benchmark, the Russell Midcap Growth Index, during the year. Our portfolio tends to emphasize companies that have high returns on invested capital (ROIC), and that we believe have more predictable business models, recurring revenue streams and strong competitive positioning that should allow the companies to take market share and experience sustainable, long-term growth, even when the economy is less strong. We believe this focus should help the portfolio outperform when markets are down and the economy is weak, driving relative outperformance over full market cycles. Over the course of 2016, our portfolio performed

as we would have expected, with much of our relative outperformance coming in the first half of the year when the economic outlook was less certain, markets were more volatile and higher quality stocks returned to favor.

Strong stock selection in the technology and health care sectors were large contributors to relative performance during the year. Within the technology sector, we held a number of companies that put up impressive results that we believe demonstrated the durability of their earnings streams. Xilinx was our top contributor to performance within the sector. During the year, the market has increasingly recognized its small but expanding business line of programmable processors. While the company is largely known for its core communications equipment, demand for its innovative processors is growing as a range of industries seek to harness the power of artificial intelligence (AI). Programmable processors are considered to be better suited to carry out many AI applications compared to more widely used serial processors. We believe that Xilinx is well positioned to grow its business in market segments that are early adopters of AI, namely data centers. Other segments where we believe AI will gain traction include automotive and homes.

Within the health care sector, Medivation was our largest contributor. The stock was up after Pfizer announced it would acquire the company. We weren't surprised that Medivation was an acquisition target, given the long-term growth potential of its prostate cancer drug, Xtandi.

While stock selection in the technology and health care sectors were large drivers of relative outperformance during the year, the Portfolio received notable contributions from many stocks outside those two sectors. TD Ameritrade was a particularly large contributor. The stock benefited from the prospects of rising interest rates, which should boost TD Ameritrade's earnings from reinvesting customers' cash. While a rate increase should benefit the company, we don't just hold the stock as a call

## Janus Aspen Enterprise Portfolio (unaudited)

on the direction of interest rates. We believe online brokers such as TD Ameritrade are poised to take market share as younger investors gravitate toward online brands that allow them to take a do-it-yourself approach to retirement planning. Further, we believe TD Ameritrade's recent acquisition of Scottrade gives it more scale, and will allow the company to improve margins as it realizes cost synergies from the acquisition.

Even though we were pleased with the results of many companies in the Portfolio, we still held stocks that disappointed during the year. Athenahealth was our largest detractor. Concerns about the company's growth in 2017 weighed on the stock in the fourth quarter, as did uncertainty about the Trump administration's commitment to incentivizing health care companies to adopt better health care technology infrastructure. News that the company's COO was leaving also negatively affected the stock. We view these issues as transitory. Late in the period, the company issued new guidance for 2017 that was more positive. Athenahealth's cloud-based software services for electronic health records, revenue cycle management and patient care coordination have the potential to remove inefficiency from the health care system and the business rationale for adopting these services remains compelling, even if some of the tax incentives for health care companies to adopt new technology go away. We also think the management team has a deep bench and are not concerned about the chief operating officer's departure.

Sensata Technologies was another detractor. Concerns that the auto sales cycle may have peaked have weighed on the shares of all auto suppliers, and Sensata was no exception. However, we still like the company's long-term growth prospects. We believe the auto cycle will plateau, rather than decline sharply. Perhaps more important, we believe Sensata can grow through an entire auto sales cycle. Automobile manufacturers continue to place more of Sensata's controls and sensors into vehicles as manufacturers adopt new technologies that assist drivers. This should allow Sensata to grow through full market cycles by growing its unit volume within vehicles, rather than just benefiting from aggregate vehicle sales.

SS&C Technologies was also a detractor. The company provides a number of investment and financial software-enabled services to asset managers, including many alternative managers. Weaker performance by some hedge funds has led to concerns the industry could shrink, and that has weighed on the stock. We believe the market is overlooking the fact that many of the alternative

managers using SS&C services are private equity companies, or types of hedge funds that haven't faced as much industry pressure. We continue to like the company. Most of its revenue comes from subscription services or software maintenance, which helps create a steadier and recurring revenue source. We also believe that SS&C is a logical consolidator of other hedge fund service providers that may look to get out of the business.

### DERIVATIVES

Please see the Derivative Instruments section in the "Notes to Financial Statements" for a discussion of derivatives used by the Fund.

### OUTLOOK

As we enter 2017, our thoughts on both the markets and U.S. economy can be summed up rather quickly. In a word: change. Several substantial shifts are underway, changing the market backdrop in the most meaningful way since the financial crisis. The U.S. economy appears primed for faster growth. The building blocks for economic growth were in place even before the election, but if the new administration indeed ushers in tax and regulatory reform, the economy could grow more rapidly than expected even a few months ago. That economic growth could lead to a more normalized interest rate environment, and rising rates have broad implications for both stock valuations in general, and for individual companies that benefit, or are penalized, from them. Finally, no one can be certain what policies the new administration will implement, but it is a good bet that regulations for some industries are poised for a shakeup.

The market has already anticipated some of these changes. Since the November election, valuations of cyclical companies have improved significantly relative to defensive areas of the market such as consumer staples and utility companies. So too, have valuations for the financial sector, as the market forecasts what rising rates and potential deregulation could mean for banks and other companies levered to interest rate changes.

Now comes the hard part. After stocks for select sectors and industries moved broadly in anticipation of a stronger economy, rising rates or a new regulatory regime, investors will need to discern exactly how these forces will affect individual companies, and whether all of those changes are reflected in the stock price. Investors must also prepare for how potentially rising rates could change stock valuations. In a low-rate, yield-starved environment, the market has bid up valuations for many stable

## **Janus Aspen Enterprise Portfolio (unaudited)**

businesses. Some of these companies fit our investment criteria and buying opportunities could present themselves if valuations become more reasonable. A low-rate environment has given other companies access to cheap capital. The ability for some of these companies to carry out their growth initiatives with a highly levered balance sheet could be hampered if the cost of debt rises. Investors will need to be mindful of how rising costs of capital affect each company.

After a broad rally reflecting some of the anticipated economic changes, investors will need to dig deeper to find remaining opportunities, and stay nimble as some of the new administration's policies take shape. We welcome that challenge in the months ahead.

Thank you for your investment in Janus Aspen Enterprise Portfolio.

# Janus Aspen Enterprise Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Top Performers - Holdings

	Contribution
Medivation Inc	0.95%
TD Ameritrade Holding Corp	0.69%
Ritchie Bros. Auctioneers Inc	0.68%
Xilinx Inc	0.52%
WEX Inc	0.46%

#### 5 Bottom Performers - Holdings

	Contribution
athenahealth Inc	-0.74%
Sensata Technologies Holding NV	-0.45%
SS&C Technologies Holdings Inc	-0.29%
LPL Financial Holdings Inc	-0.29%
Gildan Activewear Inc	-0.18%

#### 5 Top Performers - Sectors\*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell Midcap Growth Index Weighting
Information Technology	2.20%	32.78%	20.54%
Health Care	2.02%	18.17%	14.45%
Consumer Discretionary	1.45%	10.79%	24.22%
Financials	0.34%	11.12%	9.43%
Real Estate	0.31%	1.61%	1.56%

#### 5 Bottom Performers - Sectors\*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell Midcap Growth Index Weighting
Materials	-0.51%	1.72%	5.08%
Other**	-0.19%	3.20%	0.00%
Energy	-0.15%	0.97%	1.12%
Utilities	-0.01%	0.00%	0.09%
Telecommunication Services	0.01%	0.00%	0.45%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

\* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

\*\* Not a GICS classified sector.

# Janus Aspen Enterprise Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Largest Equity Holdings - (% of Net Assets)

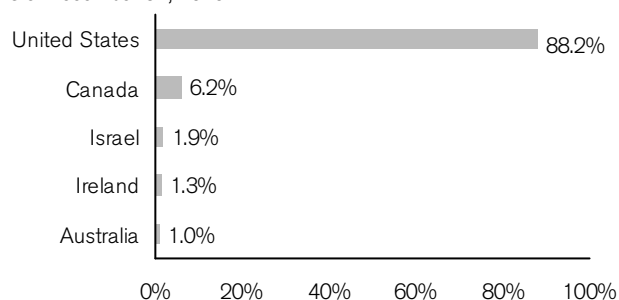
TD Ameritrade Holding Corp	
Capital Markets	2.6%
Lamar Advertising Co	
Equity Real Estate Investment Trusts (REITs)	2.5%
Sensata Technologies Holding NV	
Electrical Equipment	2.5%
Crown Castle International Corp	
Equity Real Estate Investment Trusts (REITs)	2.2%
Verisk Analytics Inc	
Professional Services	2.2%
	12.0%

#### Asset Allocation - (% of Net Assets)

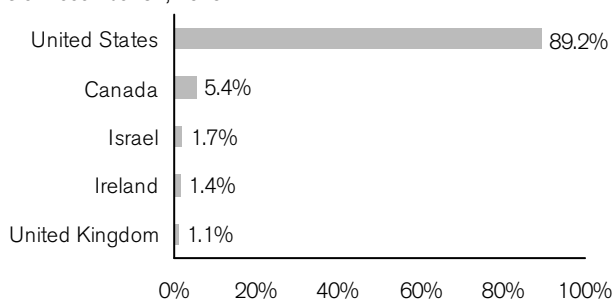
Common Stocks	96.7%
Investment Companies	4.2%
Preferred Stocks	0.2%
Other	(1.1)%
	100.0%

#### Top Country Allocations - Long Positions - (% of Investment Securities)

As of December 31, 2016

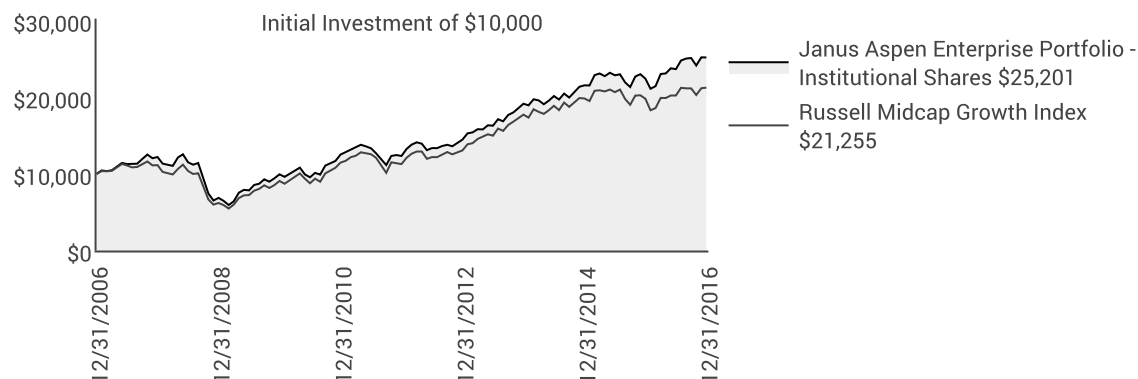


As of December 31, 2015



# Janus Aspen Enterprise Portfolio (unaudited)

## Performance



Average Annual Total Return - for the periods ended December 31, 2016					Expense Ratios - per the May 1, 2016 prospectuses
	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Institutional Shares	12.36%	15.35%	9.68%	10.41%	0.73%
Service Shares	12.10%	15.06%	9.41%	10.13%	0.99%
Russell Midcap Growth Index	7.33%	13.51%	7.83%	9.23%	
Morningstar Quartile - Institutional Shares	1st	1st	1st	1st	
Morningstar Ranking - based on total returns for Mid-Cap Growth Funds	56/667	22/596	26/546	23/158	

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit [janus.com/variable-insurance](http://janus.com/variable-insurance).

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, portfolio holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Returns shown do not represent actual returns since they do not include insurance charges. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

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There is no assurance that the investment process will consistently lead to successful investing.

See important disclosures on the next page.

## **Janus Aspen Enterprise Portfolio (unaudited)**

### **Performance**

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective July 1, 2016, Brian Demain and Cody Wheaton are Co-Portfolio Managers of the Portfolio.

\* The Portfolio's inception date – September 13, 1993



# Janus Aspen Enterprise Portfolio (unaudited)

## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of \$1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit [www.finra.org/fundalyzer](http://www.finra.org/fundalyzer).

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples 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 transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			Net Annualized Expense Ratio (7/1/16 - 12/31/16)
	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	
Institutional Shares	\$1,000.00	\$1,064.50	\$3.79	\$1,000.00	\$1,021.47	\$3.71	0.73%
Service Shares	\$1,000.00	\$1,063.20	\$5.13	\$1,000.00	\$1,020.16	\$5.03	0.99%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Enterprise Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – 96.7%		
Aerospace & Defense – 2.3%		
HEICO Corp	118,804	\$8,066,792
Teledyne Technologies Inc*	96,017	11,810,091
		19,876,883
Air Freight & Logistics – 0.8%		
Expeditors International of Washington Inc	135,537	7,178,040
Airlines – 1.3%		
Ryanair Holdings PLC (ADR)*	138,453	11,527,597
Banks – 0.6%		
SVB Financial Group*	28,845	4,951,533
Biotechnology – 2.5%		
AbbVie Inc	87,753	5,495,093
Celgene Corp*	112,494	13,021,181
TESARO Inc*#	29,109	3,914,578
		22,430,852
Building Products – 1.4%		
Allegion PLC	70,443	4,508,352
AO Smith Corp	158,636	7,511,415
		12,019,767
Capital Markets – 5.6%		
FactSet Research Systems Inc	30,202	4,935,913
LPL Financial Holdings Inc	308,488	10,861,862
MSCI Inc	136,657	10,765,838
TD Ameritrade Holding Corp	516,792	22,532,131
		49,095,744
Chemicals – 0.5%		
Potash Corp of Saskatchewan Inc	260,998	4,721,454
Commercial Services & Supplies – 2.2%		
Edenred	273,518	5,419,724
Ritchie Bros Auctioneers Inc	408,584	13,891,856
		19,311,580
Containers & Packaging – 1.8%		
Sealed Air Corp	354,413	16,069,085
Diversified Consumer Services – 1.6%		
ServiceMaster Global Holdings Inc*	363,409	13,689,617
Electrical Equipment – 3.1%		
AMETEK Inc	110,692	5,379,631
Sensata Technologies Holding NV*	558,623	21,758,366
		27,137,997
Electronic Equipment, Instruments & Components – 7.0%		
Amphenol Corp	122,044	8,201,357
Belden Inc	126,193	9,435,451
Flex Ltd*	938,916	13,492,223
National Instruments Corp	415,251	12,798,036
TE Connectivity Ltd	249,241	17,267,417
		61,194,484
Equity Real Estate Investment Trusts (REITs) – 4.7%		
Crown Castle International Corp	222,713	19,324,807
Lamar Advertising Co	324,406	21,813,059
		41,137,866
Health Care Equipment & Supplies – 8.6%		
Boston Scientific Corp*	806,024	17,434,299
Cooper Cos Inc	32,825	5,742,077
DexCom Inc*	83,594	4,990,562
Masimo Corp*	74,230	5,003,102
STERIS PLC	207,155	13,960,175
Teleflex Inc	63,436	10,222,711
Varian Medical Systems Inc*	199,197	17,883,907
		75,236,833

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – (continued)		
Health Care Providers & Services – 1.2%		
Henry Schein Inc*	68,386	\$10,374,840
Health Care Technology – 1.5%		
athenahealth Inc*	124,917	13,137,521
Hotels, Restaurants & Leisure – 2.3%		
Dunkin' Brands Group Inc	285,274	14,959,769
Norwegian Cruise Line Holdings Ltd*	123,494	5,252,200
		20,211,969
Industrial Conglomerates – 0.7%		
Roper Technologies Inc	32,548	5,958,888
Information Technology Services – 8.5%		
Amdocs Ltd	284,522	16,573,407
Broadridge Financial Solutions Inc	154,431	10,238,775
Fidelity National Information Services Inc	97,275	7,357,881
Gartner Inc*	63,172	6,384,794
Global Payments Inc	114,208	7,927,177
Jack Henry & Associates Inc	121,165	10,757,029
WEX Inc*	138,445	15,450,462
		74,689,525
Insurance – 1.7%		
Aon PLC	136,556	15,230,091
Internet Software & Services – 2.6%		
Cimpress NV*	146,475	13,418,575
CoStar Group Inc*	51,156	9,642,394
		23,060,969
Leisure Products – 0.5%		
Polaris Industries Inc <sup>#</sup>	55,531	4,575,199
Life Sciences Tools & Services – 4.4%		
PerkinElmer Inc	285,095	14,867,704
Quintiles IMS Holdings Inc*	183,665	13,967,723
Waters Corp*	72,278	9,713,440
		38,548,867
Machinery – 2.1%		
Middleby Corp*	44,214	5,695,205
Rexnord Corp*	441,773	8,654,333
Wabtec Corp/DE	52,505	4,358,965
		18,708,503
Media – 1.2%		
Omnicom Group Inc	125,503	10,681,560
Multiline Retail – 1.1%		
Dollar General Corp	75,737	5,609,840
Dollar Tree Inc*	52,286	4,035,433
		9,645,273
Oil, Gas & Consumable Fuels – 0.9%		
World Fuel Services Corp	178,144	8,178,591
Professional Services – 3.0%		
IHS Markit Ltd*	207,185	7,336,421
Verisk Analytics Inc* <sup>†</sup>	234,959	19,071,622
		26,408,043
Road & Rail – 1.7%		
Canadian Pacific Railway Ltd	49,264	7,033,421
Old Dominion Freight Line Inc*	91,975	7,890,535
		14,923,956
Semiconductor & Semiconductor Equipment – 6.8%		
KLA-Tencor Corp	152,971	12,035,758
Lam Research Corp	98,968	10,463,887
Microchip Technology Inc	155,482	9,974,170
ON Semiconductor Corp*	865,251	11,040,603
Xilinx Inc	271,663	16,400,295
		59,914,713

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Schedule of Investments

### December 31, 2016

	<i>Shares</i>	<i>Value</i>
Common Stocks – (continued)		
Software – 8.8%		
Atlassian Corp PLC*	349,128	\$8,407,002
Cadence Design Systems Inc*	517,565	13,052,989
Constellation Software Inc/Canada	36,314	16,503,462
Intuit Inc	84,534	9,688,442
Nice Ltd (ADR)	246,748	16,966,393
SS&C Technologies Holdings Inc	436,096	12,472,346
		77,090,634
Specialty Retail – 1.0%		
Tractor Supply Co	48,569	3,682,016
Williams-Sonoma Inc	111,577	5,399,211
		9,081,227
Textiles, Apparel & Luxury Goods – 2.7%		
Carter's Inc	69,676	6,019,310
Gildan Activewear Inc	503,751	12,780,163
Wolverine World Wide Inc	224,717	4,932,538
		23,732,011
Total Common Stocks (cost \$577,949,244)		849,731,712
Preferred Stocks – 0.2%		
Electronic Equipment, Instruments & Components – 0.2%		
Belden Inc, 6.7500% (cost \$1,200,000)	12,000	1,268,040
Investment Companies – 4.2%		
Investments Purchased with Cash Collateral from Securities Lending – 0.7%		
Janus Cash Collateral Fund LLC, 0.4311% <sup>Ⓢ</sup>	6,464,316	6,464,316
Money Markets – 3.5%		
Janus Cash Liquidity Fund LLC, 0.4708% <sup>Ⓢ</sup>	30,395,468	30,395,468
Total Investment Companies (cost \$36,859,784)		36,859,784
Total Investments (total cost \$616,009,028) – 101.1%		887,859,536
Liabilities, net of Cash, Receivables and Other Assets – (1.1)%		(9,358,410)
Net Assets – 100%		\$878,501,126

#### Summary of Investments by Country - (Long Positions) (unaudited)

<i>Country</i>	<i>Value</i>	<i>% of Investment Securities</i>
United States	\$783,272,043	88.2 %
Canada	54,930,356	6.2
Israel	16,966,393	1.9
Ireland	11,527,597	1.3
Australia	8,407,002	1.0
United Kingdom	7,336,421	0.8
France	5,419,724	0.6
Total	\$887,859,536	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Schedule of Investments

### December 31, 2016

#### Schedule of Foreign Currency Contracts, Open

Counterparty/ Currency	Settlement Date	Currency Units Sold	Currency Value	Unrealized Appreciation/ (Depreciation)
Bank of America:				
Euro	1/12/17	1,165,000	\$ 1,226,769	\$ 13,379
Barclays Capital, Inc.:				
Canadian Dollar	2/23/17	790,000	588,858	(6,373)
Euro	1/19/17	1,020,000	1,074,548	8,520
Euro	2/23/17	3,072,000	3,241,942	(37,447)
			4,905,348	(35,300)
Citibank NA:				
Canadian Dollar	1/19/17	2,431,000	1,811,221	30,831
Euro	1/19/17	1,543,000	1,625,517	15,076
			3,436,738	45,907
HSBC Securities (USA), Inc.:				
Canadian Dollar	1/19/17	2,354,000	1,753,852	29,056
Euro	1/19/17	1,012,000	1,066,120	10,076
			2,819,972	39,132
JPMorgan Chase & Co.:				
Euro	1/12/17	3,852,000	4,056,237	47,199
RBC Capital Markets Corp.:				
Canadian Dollar	2/9/17	3,481,000	2,594,274	(23,399)
Euro	2/9/17	3,604,000	3,801,010	(24,945)
			6,395,284	(48,344)
Total			\$ 22,840,348	\$ 61,973

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Notes to Schedule of Investments and Other Information

Russell Midcap<sup>®</sup> Growth Index Measures the performance of those Russell Midcap<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.

ADR American Depositary Receipt

LLC Limited Liability Company

PLC Public Limited Company

\* Non-income producing security.

† A portion of this security has been segregated to cover margin or segregation requirements on open futures contracts, forward currency contracts, options contracts, short sales, swap agreements, and/or securities with extended settlement dates, the value of which, as of December 31, 2016, is \$17,857,400.

°° Rate shown is the 7-day yield as of December 31, 2016.

# Loaned security; a portion of the security is on loan at December 31, 2016.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	<i>Share Balance at 12/31/15</i>	<i>Purchases</i>	<i>Sales</i>	<i>Share Balance at 12/31/16</i>	<i>Realized Gain/(Loss)</i>	<i>Dividend Income</i>	<i>Value at 12/31/16</i>
Janus Cash Collateral Fund LLC	43,430,390	204,213,727	(241,179,801)	6,464,316	\$—	\$341,602 <sup>(1)</sup>	\$6,464,316
Janus Cash Liquidity Fund LLC	30,205,954	140,508,514	(140,319,000)	30,395,468	—	98,139	30,395,468
<b>Total</b>					<b>\$—</b>	<b>\$439,741</b>	<b>\$36,859,784</b>

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

# Janus Aspen Enterprise Portfolio

## Notes to Schedule of Investments and Other Information

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2016. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

	<i>Level 1 - Quotes Prices</i>	<i>Level 2 - Other Significant Observable Inputs</i>	<i>Level 3 - Significant Unobservable Inputs</i>
<b>Assets</b>			
<b>Investments in Securities</b>			
<i>Common Stocks</i>			
Commercial Services & Supplies	\$ 13,891,856	\$ 5,419,724	\$ -
Software	60,587,172	16,503,462	-
All Other	753,329,498	-	-
<i>Preferred Stocks</i>	-	1,268,040	-
<i>Investment Companies</i>	-	36,859,784	-
<b>Total Investments in Securities</b>	<b>\$ 827,808,526</b>	<b>\$ 60,051,010</b>	<b>\$ -</b>
<b>Other Financial Instruments<sup>(a)</sup>:</b>			
<i>Forward Currency Contracts</i>	-	154,137	-
<b>Total Assets</b>	<b>\$ 827,808,526</b>	<b>\$ 60,205,147</b>	<b>\$ -</b>
<b>Liabilities</b>			
<b>Other Financial Instruments<sup>(a)</sup>:</b>			
<i>Forward Currency Contracts</i>	\$ -	\$ 92,164	\$ -

(a) Other financial instruments include forward currency, futures, written options, written swaptions, and swap contracts. Forward currency contracts are reported at their unrealized appreciation/(depreciation) at measurement date, which represents the change in the contract's value from trade date. Futures, certain written options on futures, and centrally cleared swap contracts are reported at their variation margin at measurement date, which represents the amount due to/from the Portfolio at that date. Written options, written swaptions, and other swap contracts are reported at their market value at measurement date.

# Janus Aspen Enterprise Portfolio

## Statement of Assets and Liabilities

### December 31, 2016

<b>Assets:</b>		
Investments, at cost	\$	616,009,028
Unaffiliated investments, at value <sup>(1)</sup>		850,999,752
Affiliated investments, at value		36,859,784
Cash		868
Forward currency contracts		154,137
Closed foreign currency contracts		169,235
Non-interested Trustees' deferred compensation		16,306
<b>Receivables:</b>		
Investments sold		1,323,896
Portfolio shares sold		464,740
Dividends		366,180
Dividends from affiliates		10,313
Foreign tax reclaims		7,163
Other assets		10,621
<b>Total Assets</b>		<b>890,382,995</b>
<b>Liabilities:</b>		
Collateral for securities loaned (Note 3)		6,464,316
Forward currency contracts		92,164
Closed foreign currency contracts		1,027
<b>Payables:</b>		
Investments purchased		4,006,055
Portfolio shares repurchased		603,638
Advisory fees		510,399
12b-1 Distribution and shareholder servicing fees		94,671
Transfer agent fees and expenses		41,997
Professional fees		22,109
Non-interested Trustees' deferred compensation fees		16,306
Portfolio administration fees		7,576
Non-interested Trustees' fees and expenses		6,901
Custodian fees		2,892
Accrued expenses and other payables		11,818
<b>Total Liabilities</b>		<b>11,881,869</b>
<b>Net Assets</b>	<b>\$</b>	<b>878,501,126</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid-in surplus)	\$	536,334,006
Undistributed net investment income/(loss)		2,563,393
Undistributed net realized gain/(loss) from investments and foreign currency transactions		67,690,264
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		271,913,463
<b>Total Net Assets</b>	<b>\$</b>	<b>878,501,126</b>
<b>Net Assets - Institutional Shares</b>	<b>\$</b>	<b>459,250,028</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		7,748,613
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>59.27</b>
<b>Net Assets - Service Shares</b>	<b>\$</b>	<b>419,251,098</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		7,457,333
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>56.22</b>

(1) Includes \$6,332,348 of securities on loan. See Note 3 in Notes to Financial Statements.

See Notes to Financial Statements.



# Janus Aspen Enterprise Portfolio

## Statement of Operations

### For the year ended December 31, 2016

Investment Income:		
Dividends	\$	9,431,961
Affiliated securities lending income, net		341,602
Dividends from affiliates		98,139
Other income		47
Foreign tax withheld		(202,192)
Total Investment Income		9,669,557
Expenses:		
Advisory fees		5,166,682
12b-1 Distribution and shareholder servicing fees:		
Service Shares		932,619
Transfer agent administrative fees and expenses:		
Institutional Shares		151,959
Service Shares		133,422
Other transfer agent fees and expenses:		
Institutional Shares		8,180
Service Shares		4,114
Portfolio administration fees		72,844
Shareholder reports expense		54,612
Professional fees		45,899
Non-interested Trustees' fees and expenses		26,262
Registration fees		20,789
Custodian fees		17,702
Other expenses		124,024
Total Expenses		6,759,108
Net Investment Income/(Loss)		2,910,449
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		68,045,643
Total Net Realized Gain/(Loss) on Investments		68,045,643
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		24,741,659
Total Change in Unrealized Net Appreciation/Depreciation		24,741,659
Net Increase/(Decrease) in Net Assets Resulting from Operations	\$	95,697,751

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Statements of Changes in Net Assets

	<i>Year ended</i>		<i>Year ended</i>	
	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
Operations:				
Net investment income/(loss)	\$	2,910,449	\$	2,442,446
Net realized gain/(loss) on investments		68,045,643		66,010,415
Change in unrealized net appreciation/depreciation		24,741,659		(41,750,997)
Net Increase/(Decrease) in Net Assets Resulting from Operations		95,697,751		26,701,864
Dividends and Distributions to Shareholders:				
Dividends from Net Investment Income				
Institutional Shares		(643,985)		(2,737,465)
Service Shares		(98,035)		(1,623,824)
Total Dividends from Net Investment Income		(742,020)		(4,361,289)
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(34,561,214)		(44,791,680)
Service Shares		(31,048,820)		(32,958,607)
Total Distributions from Net Realized Gain from Investment Transactions		(65,610,034)		(77,750,287)
Net Decrease from Dividends and Distributions to Shareholders		(66,352,054)		(82,111,576)
Capital Share Transactions:				
Institutional Shares		25,003,153		31,033,269
Service Shares		84,512,086		67,881,071
Net Increase/(Decrease) from Capital Share Transactions		109,515,239		98,914,340
Net Increase/(Decrease) in Net Assets		138,860,936		43,504,628
Net Assets:				
Beginning of period		739,640,190		696,135,562
End of period	\$	878,501,126	\$	739,640,190
Undistributed Net Investment Income/(Loss)	\$	2,563,393	\$	423,315

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Financial Highlights

### Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$57.33	\$61.75	\$58.96	\$44.77	\$38.17
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.28 <sup>(1)</sup>	0.27 <sup>(1)</sup>	0.27 <sup>(1)</sup>	0.22	0.30
Net realized and unrealized gain/(loss)	6.50	2.55	6.79	14.23	6.30
Total from Investment Operations	6.78	2.82	7.06	14.45	6.60
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.09)	(0.40)	(0.10)	(0.26)	—
Distributions (from capital gains)	(4.75)	(6.84)	(4.17)	—	—
Total Dividends and Distributions	(4.84)	(7.24)	(4.27)	(0.26)	—
Net Asset Value, End of Period	\$59.27	\$57.33	\$61.75	\$58.96	\$44.77
Total Return*	12.36%	4.05%	12.50%	32.38%	17.29%
Net Assets, End of Period (in thousands)	\$459,250	\$418,158	\$417,895	\$407,049	\$341,699
Average Net Assets for the Period (in thousands)	\$435,190	\$427,941	\$402,634	\$373,893	\$344,014
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.72%	0.68%	0.68%	0.69%	0.69%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.72%	0.68%	0.68%	0.69%	0.69%
Ratio of Net Investment Income/(Loss)	0.48%	0.44%	0.45%	0.28%	0.52%
Portfolio Turnover Rate	20%	22%	16%	15%	15%

### Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$54.67	\$59.26	\$56.80	\$43.18	\$36.91
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.12 <sup>(1)</sup>	0.11 <sup>(1)</sup>	0.12 <sup>(1)</sup>	(0.03)	0.09
Net realized and unrealized gain/(loss)	6.19	2.45	6.53	13.83	6.18
Total from Investment Operations	6.31	2.56	6.65	13.80	6.27
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.01)	(0.31)	(0.02)	(0.18)	—
Distributions (from capital gains)	(4.75)	(6.84)	(4.17)	—	—
Total Dividends and Distributions	(4.76)	(7.15)	(4.19)	(0.18)	—
Net Asset Value, End of Period	\$56.22	\$54.67	\$59.26	\$56.80	\$43.18
Total Return*	12.10%	3.77%	12.24%	32.04%	16.99%
Net Assets, End of Period (in thousands)	\$419,251	\$321,482	\$278,240	\$260,670	\$212,971
Average Net Assets for the Period (in thousands)	\$373,400	\$299,393	\$262,698	\$234,925	\$206,153
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.97%	0.94%	0.93%	0.94%	0.94%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.97%	0.94%	0.93%	0.94%	0.94%
Ratio of Net Investment Income/(Loss)	0.22%	0.19%	0.20%	0.03%	0.28%
Portfolio Turnover Rate	20%	22%	16%	15%	15%

\* Total return not annualized for periods of less than one full year.

\*\* Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

See Notes to Financial Statements.

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Enterprise Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2016 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year. The following describes the amounts of transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year.

Financial assets of \$15,667,024 were transferred out of Level 1 to Level 2 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the current period and no factor was applied at the end of the prior fiscal year.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

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.

### Indemnifications

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

### Foreign Currency Translations

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

### Dividends and Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

### Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, options on recovery locks, options on security and commodity indices, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the year ended December 31, 2016 is discussed in further detail below. A summary of derivative activity by the Fund is reflected in the tables at the end of this section.

The Portfolio may use derivative instruments for hedging purposes (to offset risks associated with an investment, currency exposure, or market conditions), to adjust currency exposure relative to a benchmark index, or for speculative purposes (to earn income and seek to enhance returns). When the Portfolio invests in a derivative for speculative purposes, the Portfolio will be fully exposed to the risks of loss of that derivative, which may sometimes be greater than the derivative's cost. The Portfolio may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. The Portfolio's ability to use derivative instruments may also be limited by tax considerations.

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks.

In pursuit of its investment objective, the Portfolio may seek to use derivatives to increase or decrease exposure to the following market risk factors:

- **Commodity Risk** – the risk related to the change in value of commodities or commodity-linked investments due to changes in the overall market movements, volatility of the underlying benchmark, changes in interest rates, or other factors affecting a particular industry of commodity such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.
- **Counterparty Risk** – the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be unable to honor its financial obligation to the Portfolio.
- **Credit Risk** – the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.
- **Currency Risk** – the risk that changes in the exchange rate between currencies will adversely affect the value (in U.S. dollar terms) of an investment.
- **Equity Risk** – the risk related to the change in value of equity securities as they relate to increases or decreases in the general market.
- **Index Risk** – if the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the Portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.
- **Interest Rate Risk** – the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause the Portfolio's NAV to likewise decrease.
- **Leverage Risk** – the risk associated with certain types of leveraged investments or trading strategies pursuant to which relatively small market movements may result in large changes in the value of an investment. The Portfolio creates leverage by investing in instruments, including derivatives, where the investment loss can exceed the original amount invested. Certain investments or trading strategies, such as short sales, that involve leverage can result in losses that greatly exceed the amount originally invested.
- **Liquidity Risk** – the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs. OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk.

In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital's ability to establish and maintain appropriate systems and trading.

### Forward Foreign Currency Exchange Contracts

A forward foreign currency exchange contract ("forward currency contract") is an obligation to buy or sell a specified currency at a future date at a negotiated rate (which may be U.S. dollars or a foreign currency). The Portfolio may enter into forward currency contracts for hedging purposes, including, but not limited to, reducing exposure to changes in foreign currency exchange rates on foreign portfolio holdings and locking in the U.S. dollar cost of firm purchase and sale commitments for securities denominated in or exposed to foreign currencies. The Portfolio may also invest in

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

forward currency contracts for nonhedging purposes such as seeking to enhance returns. The Portfolio is subject to currency risk and counterparty risk in the normal course of pursuing its investment objective through its investments in forward currency contracts.

Forward currency contracts are valued by converting the foreign value to U.S. dollars by using the current spot U.S. dollar exchange rate and/or forward rate for that currency. Exchange and forward rates as of the close of the NYSE shall be used to value the forward currency contracts.

The unrealized appreciation/(depreciation) for forward currency contracts is reported in the Statement of Assets and Liabilities as a receivable or payable and in the Statement of Operations for the change in unrealized net appreciation/depreciation (if applicable). The gain or loss arising from the difference between the U.S. dollar cost of the original contract and the value of the foreign currency in U.S. dollars upon closing a forward currency contract is reported on the Statement of Operations (if applicable).

During the year, the Portfolio entered into forward currency contracts with the obligation to sell foreign currencies in the future at an agreed upon rate in order to decrease exposure to currency risk associated with foreign currency denominated securities held by the Portfolio.

During the year ended December 31, 2016, the average ending monthly currency value amounts on sold forward currency contracts is \$19,258,621.

The following table, grouped by derivative type, provides information about the fair value and location of derivatives within the Statement of Assets and Liabilities as of December 31, 2016.

### Fair Value of Derivative Instruments (not accounted for as hedging instruments) as of December 31, 2016

	<i>Currency Contracts</i>
<i>Asset Derivatives:</i>	
Forward currency contracts	\$154,137
<i>Liability Derivatives:</i>	
Forward currency contracts	\$ 92,164

The following tables provide information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the year ended December 31, 2016.

### The effect of Derivative Instruments (not accounted for as hedging instruments) on the Statement of Operations for the year ended December 31, 2016

	<i>Amount of Realized Gain/(Loss) Recognized on Derivatives</i>
<i>Derivative</i>	<i>Currency Contracts</i>
Investments and foreign currency transactions	\$ 617,050

	<i>Amount of Change in Unrealized Appreciation/Depreciation Recognized on Derivatives</i>
<i>Derivative</i>	<i>Currency Contracts</i>
Investments, foreign currency translations and non-interested Trustees' deferred compensation	\$(121,368)

Please see the "Net Realized Gain/(Loss) on Investments" and "Change in Unrealized Net Appreciation/Depreciation" sections of the Portfolio's Statement of Operations.



# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

### 3. Other Investments and Strategies

#### Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

#### Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

assets and liabilities approximates its carrying value. See the "Offsetting Assets and Liabilities" section of this Note for further details.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

### Offsetting Assets and Liabilities

The Portfolio presents gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement with a designated counterparty, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

In order to better define its contractual rights and to secure rights that will help the Portfolio mitigate its counterparty risk, the Portfolio has entered into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between the Portfolio and a counterparty that governs OTC derivatives and forward foreign currency exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, in the event of a default and/or termination event, the Portfolio may offset with each counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. For financial reporting purposes, the Portfolio does not offset certain derivative financial instruments' payables and receivables and related collateral on the Statement of Assets and Liabilities.

The following tables present gross amounts of recognized assets and/or liabilities and the net amounts after deducting collateral that has been pledged by counterparties or has been pledged to counterparties (if applicable). For corresponding information grouped by type of instrument, see either the "Fair Value of Derivative Instruments as of December 31, 2016" table located in Note 2 of these Notes to Financial Statements and/or the Portfolio's Schedule of Investments.

### Offsetting of Financial Assets and Derivative Assets

Counterparty		Gross Amounts of Recognized Assets		Offsetting Asset or Liability <sup>(a)</sup>		Collateral Pledged <sup>(b)</sup>		Net Amount
Bank of America	\$	13,379	\$	—	\$	—	\$	13,379
Barclays Capital, Inc.		8,520		(8,520)		—		—
Citibank NA		45,907		—		—		45,907
Deutsche Bank AG		6,332,348		—		(6,332,348)		—
HSBC Securities (USA), Inc.		39,132		—		—		39,132
JPMorgan Chase & Co.		47,199		—		—		47,199
Total	\$	6,486,485	\$	(8,520)	\$	(6,332,348)	\$	145,617

### Offsetting of Financial Liabilities and Derivative Liabilities

Counterparty		Gross Amounts of Recognized Liabilities		Offsetting Asset or Liability <sup>(a)</sup>		Collateral Pledged <sup>(b)</sup>		Net Amount
Barclays Capital, Inc.	\$	43,820	\$	(8,520)	\$	—	\$	35,300
RBC Capital Markets Corp.		48,344		—		—		48,344
Total	\$	92,164	\$	(8,520)	\$	—	\$	83,644

(a) Represents the amount of assets or liabilities that could be offset with the same counterparty under master netting or similar agreements that management elects not to offset on the Statement of Assets and Liabilities.

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

(b) Collateral pledged is limited to the net outstanding amount due to/from an individual counterparty. The actual collateral amounts pledged may exceed these amounts and may fluctuate in value.

Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions in accordance with the Agency Securities Lending and Repurchase Agreement. Securities on loan will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Upon receipt of cash collateral, Janus Capital intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The Portfolio does not exchange collateral on its forward currency contracts with its counterparties; however, the Portfolio may segregate cash or high-grade securities in an amount at all times equal to or greater than the Portfolio's commitment with respect to these contracts. Such segregated assets, if with the Portfolio's custodian, are denoted on the accompanying Schedule of Investments and are evaluated daily to ensure their market value equals or exceeds the current market value of the Portfolio's corresponding forward currency contracts.

### Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

### Securities Lending

Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments (if applicable). Income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the lending agent are included as "Affiliated securities lending income, net" on the Statement of Operations. As of December 31, 2016, securities lending transactions accounted for as secured borrowings with an overnight and continuous contractual maturity are \$6,332,348 for equity securities. Gross amounts of recognized liabilities for securities lending (collateral received) as of December 31, 2016 is \$6,464,316, resulting in the net amount due to the counterparty of \$131,968.

#### 4. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's contractual investment advisory fee rate (expressed as an annual rate) is 0.64% of its average daily net assets.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of \$56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2016 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2016 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of \$201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of \$1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2016, the Portfolio engaged in cross trades amounting to \$159,561 in purchases.

### 5. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation, derivatives, and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

<i>Undistributed Ordinary Income</i>	<i>Undistributed Long-Term Gains</i>	<i>Accumulated Capital Losses</i>	<i>Loss Deferrals</i>		<i>Other Book to Tax Differences</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
			<i>Late-Year Ordinary Loss</i>	<i>Post-October Capital Loss</i>		
\$ 6,165,712	\$ 64,073,242	\$ -	\$ -	\$ -	\$ (15,325)	\$271,943,491

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
\$ 615,916,045	\$283,195,788	\$ (11,252,297)	\$ 271,943,491

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2016*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 6,166,666	\$ 60,185,388	\$ -	\$ -

*For the year ended December 31, 2015*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 6,036,918	\$ 76,074,658	\$ -	\$ -

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

<i>Increase/(Decrease) to Capital</i>	<i>Increase/(Decrease) to Undistributed Net Investment Income/Loss</i>	<i>Increase/(Decrease) to Undistributed Net Realized Gain/Loss</i>
\$ -	\$ (28,351)	\$ 28,351

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

### 6. Capital Share Transactions

	Year ended December 31, 2016		Year ended December 31, 2015	
	Shares	Amount	Shares	Amount
Institutional Shares:				
Shares sold	979,051	\$ 56,320,924	814,112	\$49,077,557
Reinvested dividends and distributions	632,158	35,205,199	789,910	47,529,145
Shares repurchased	(1,156,822)	(66,522,970)	(1,076,851)	(65,573,433)
Net Increase/(Decrease)	454,387	\$ 25,003,153	527,171	\$31,033,269
Service Shares:				
Shares sold	2,029,144	\$110,199,332	1,538,508	\$89,152,188
Reinvested dividends and distributions	589,542	31,146,855	602,094	34,582,431
Shares repurchased	(1,041,304)	(56,834,101)	(955,872)	(55,853,548)
Net Increase/(Decrease)	1,577,382	\$ 84,512,086	1,184,730	\$67,881,071

### 7. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>	<i>Purchases of Long-Term U.S. Government Obligations</i>	<i>Proceeds from Sales of Long-Term U.S. Government Obligations</i>
\$200,942,645	\$ 154,893,792	\$ -	\$ -

### 8. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement

# Janus Aspen Enterprise Portfolio

## Notes to Financial Statements

or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.

### **9. Subsequent Event**

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.



# **Janus Aspen Enterprise Portfolio**

## **Report of Independent Registered Public Accounting Firm**

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Enterprise Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Enterprise Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") as of December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Denver, Colorado  
February 10, 2017

# Janus Aspen Enterprise Portfolio

## Additional Information (unaudited)

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at [janus.com/proxyvoting](http://janus.com/proxyvoting); and (iii) on the SEC's website at <http://www.sec.gov>. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through [janus.com/proxyvoting](http://janus.com/proxyvoting) and from the SEC's website at <http://www.sec.gov>.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at <http://www.sec.gov>; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's

## Janus Aspen Enterprise Portfolio

### Additional Information (unaudited)

business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

# Janus Aspen Enterprise Portfolio

## Additional Information (unaudited)

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The

## **Janus Aspen Enterprise Portfolio**

### **Additional Information (unaudited)**

term “unfair burden” is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an “unfair burden” will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds’ shareholders (the “Meetings”), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds’ shareholders for their approval.

#### ***Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period***

In the event shareholders of a Fund do not approve such Fund’s New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an “Interim Advisory Agreement” and collectively, the “Interim Advisory Agreements”) and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an “Interim Sub-Advisory Agreement” and collectively, the “Interim Sub-Advisory Agreements”) take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the “150-day period”) or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

#### ***Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio***

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the “Amended Advisory Agreement”) between Janus Capital and the Trust on behalf of

## Janus Aspen Enterprise Portfolio

### Additional Information (unaudited)

Janus Portfolio (for the purposes of this section, the “Fund” refers to Janus Portfolio) and other matters related to the proposed changes to the Fund's name, principal investment strategies, and portfolio management team (the “Realignment”). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board's consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see “Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period” above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the “Full Performance Rate”) and cumulative investment record of the Fund's benchmark index (the “Performance Fee Benchmark”);
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund's investment team will be able to more efficiently manage the Fund's portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital's belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund's current investment approach;
- the Realignment was being proposed as part of Janus Capital's efforts to streamline its product line;
- Janus Capital's belief that the Fund would benefit from Janus Capital's operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund's portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund's portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

# Janus Aspen Enterprise Portfolio

## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2016. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical \$10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, swaptions, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Enterprise Portfolio

## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

### Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

### Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

### Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the



## **Janus Aspen Enterprise Portfolio**

### **Useful Information About Your Portfolio Report (unaudited)**

period. The next line reflects the total return for the period. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

## Janus Aspen Enterprise Portfolio

### Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

#### Proposal

To elect eight Trustees, each of whom is considered "independent."

Trustees	Record Date Votes (\$)	Number of Votes (\$)		
		Affirmative	Withheld	Total
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

Trustees	Votes (%)			Percentage Voted (%)		
	Affirmative	Withheld	Total	Affirmative	Withheld	Total
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

## Janus Aspen Enterprise Portfolio

### Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Capital Gain Distributions	\$60,185,388
Dividends Received Deduction Percentage	55%

## **Janus Aspen Enterprise Portfolio**

### **Trustees and Officers (unaudited)**

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman	1/08-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
	Trustee	6/02-Present			

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	58	Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11-Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	58	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16-Present	Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).



# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	58	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	58	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Brian Demain 151 Detroit Street Denver, CO 80206 DOB: 1977	Executive Vice President and Co-Portfolio Manager Janus Aspen Enterprise Portfolio	11/07-Present	Vice President of Janus Capital and Portfolio Manager for other Janus accounts.
Cody Wheaton 151 Detroit Street Denver, CO 80206 DOB: 1978	Executive Vice President and Co-Portfolio Manager Janus Aspen Enterprise Portfolio	7/16-Present	Portfolio Manager for other Janus accounts and Analyst for Janus Capital.
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Enterprise Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer	3/05-Present	Vice President of Janus Capital and Janus Services LLC.
	Vice President, Treasurer, and Principal Accounting Officer	2/05-Present	
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## **Janus Aspen Enterprise Portfolio**

### **Notes**

## **Janus Aspen Enterprise Portfolio**

### **Notes**

## Janus provides access to a wide range of investment disciplines.

### Alternative

Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

### Asset Allocation

Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

### Fixed Income

Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

### Global & International

Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

### Growth & Core

Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

### Mathematical

Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH<sup>®</sup> (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

### Value

Our value funds, managed by Perkins<sup>®</sup> (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to [janus.com/variable-insurance](http://janus.com/variable-insurance).**



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*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from [janus.com/variable-insurance](http://janus.com/variable-insurance). Read it carefully before you invest or send money.*

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NOT FDIC-INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
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# Janus Aspen Forty Portfolio

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Janus Aspen Series

## HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings



**JANUS®**



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# Janus Aspen Forty Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe that constructing a concentrated portfolio of quality growth companies will allow us to outperform our benchmark over time. We define quality as companies that enjoy sustainable “moats” around their businesses, potentially allowing companies to grow faster, with higher returns, than their competitors. We believe the market often underestimates these companies’ sustainable competitive advantage periods.

## PERFORMANCE OVERVIEW

For the 12-month period ended December 31, 2016, Janus Aspen Forty Portfolio’s Institutional Shares and Service Shares returned 2.20% and 1.94%, respectively, versus a return of 7.08% for the Portfolio’s primary benchmark, the Russell 1000 Growth Index. The Portfolio’s secondary benchmark, the S&P 500 Index, returned 11.96% for the period.

## INVESTMENT ENVIRONMENT

Stocks registered gains in 2016, but experienced brief bouts of volatility. Equities started the year lower due to concerns about the health of the Chinese economy and fear about how falling oil prices could affect the energy sector. As fears grew about the global economy, more defensive areas of the market such as consumer staples and utilities companies outperformed. Midway through the year, the UK’s decision to leave the European Union (EU) in June’s “Brexit” referendum jolted markets, but investors soon regained their composure and sent shares higher. Stocks climbed after the November U.S. presidential election, on the expectation that the new administration would champion pro-growth initiatives. As economic growth prospects improved, cyclical stocks outperformed the broader market.

## PERFORMANCE DISCUSSION

The Portfolio underperformed both its primary benchmark, the Russell 1000 Growth Index, and its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have built clear, sustainable, competitive moats around their businesses, which should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing these sustainable competitive



Doug Rao  
co-portfolio manager

Nick Schommer  
co-portfolio manager

advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders.

Over the course of the past year, our underperformance came during two brief periods. We fell behind the benchmark at the beginning of the year, when markets sold off due to fears about the global economy and investors rotated into more defensive areas of the market. We also underperformed at the end of the year, when prospects for an improving global economic picture led to a broad market rotation away from companies tied to secular growth trends toward companies with more cyclical growth prospects. As we note in our Outlook, many of the companies we own are tied to secular growth themes. While that hurt performance during the period, we invest with a long-term perspective and maintain a high level of conviction in the competitive advantages of our companies and secular themes underpinning growth potential for the stocks in our portfolio.

We also held a few stocks during the period that produced disappointing results that affected performance. Norwegian Cruise Line was the leading detractor during the period. We exited our position in the cruise line company due to poor execution by management during a period of time in which geopolitical factors impacted demand for their business.

Regeneron Pharmaceuticals was another detractor. Slower-than-expected adoption of a new drug the company recently launched has been a headwind for the company. However, we remain encouraged about many of the drugs in Regeneron’s pipeline, in addition to its existing drugs on the market.

Salesforce was another detractor. A rumor that the company was interested in acquiring Twitter was one reason that drove the stock lower. We didn’t think the acquisition was a natural fit for the business, and were

## Janus Aspen Forty Portfolio (unaudited)

pleased to see the company decide not to pursue the acquisition. We continue to like Salesforce's position as a leader in cloud-based enterprise software, and believe it will benefit as marketing and sales departments move more functions from on-premises software to the cloud.

While some stocks negatively affected performance, we are pleased with the performance of a number of other positions. Construction aggregate company Vulcan Materials was a leading contributor to performance. The company benefited as residential and nonresidential aggregate markets recovered in the first half of the year. Improvements in highway infrastructure spending also aided the stock's performance. We believe the macroeconomic environment is favorable for continued performance by Vulcan, which we believe enjoys strong competitive advantages around its business model and quarries, though we have trimmed the position as it has approached our price target.

Amazon was another leading contributor. Increasing profitability in its core retail business and growth in Amazon Web Services have helped drive the stock during the year. We believe Amazon is a good example of the types of competitively advantaged companies we tend to seek in our portfolio. Amazon has already rewritten the rules for retail shopping and we believe it will continue to gain consumers' wallet share as more shopping moves from physical stores to online and mobile purchases. Meanwhile, Amazon Web Services is revolutionizing the way companies utilize IT services, using its scale to offer a disruptive pricing model to businesses seeking IT functions in the cloud.

Charles Schwab Corp. was also a large contributor. The stock benefited from the prospect of rising interest rates, which should boost the earnings from cash held in customers' accounts. We believe the company's strong brand, which is trusted among retail investors and registered investment advisers that use its services, is a strong competitive advantage for the company. We also believe its size and digital focus gives it a cost structure advantage, allowing it to offer trading and other financial services at lower costs than most competitors. Going forward, we believe the trends of investment advisors seeking independence from large wirehouses and households seeking lower cost investing services are long-term secular growth trends that will benefit Schwab.

### OUTLOOK

Some of the enthusiasm reflected in the market's rise since the presidential election is likely warranted. The new

administration's policies could spark better near-term economic growth and real wage growth for the U.S. consumer. On the margin, we've made a few changes in light of the potentially improved economic landscape, increasing our exposure to a few cyclical growth companies. Some of those companies were among our top contributors to performance.

While we made a few marginal changes, the bulk of our portfolio is still invested with companies tied to secular growth themes that should push forward independent of the macroeconomic environment. We believe the long-term growth potential of these companies remains compelling.

Many of the companies we hold are tied to secular themes that are still in their early innings: the shift from offline to online spending, the shift of enterprise software from on-premises data centers to the cloud, a proliferation of connected devices in the home and business, and a growing global middle class, to name just a few. It's important to note that these companies aren't just exposed to such trends. We believe they have built competitive moats around their businesses that uniquely position them as the key beneficiaries or pivotal players driving these themes forward. We plan to keep a long-term perspective as we watch these trends unfold in the coming years.

Thank you for your investment in Janus Aspen Forty Portfolio.

**Janus Aspen Forty Portfolio (unaudited)**  
**Portfolio At A Glance**  
**December 31, 2016**

**5 Top Performers - Holdings**

	<b>Contribution</b>
Vulcan Materials Co	0.82%
Amazon.com Inc	0.75%
Charles Schwab Corp	0.67%
Zoetis Inc	0.61%
Boston Scientific Corp	0.46%

**5 Bottom Performers - Holdings**

	<b>Contribution</b>
Norwegian Cruise Line Holdings Ltd	-0.89%
Regeneron Pharmaceuticals Inc	-0.66%
salesforce.com Inc	-0.50%
E*TRADE Financial Corp	-0.29%
Chipotle Mexican Grill Inc	-0.27%

**5 Top Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>Russell 1000 Growth Index Weighting</b>
Health Care	1.24%	18.54%	16.47%
Materials	0.45%	3.53%	3.56%
Financials	0.41%	11.79%	4.68%
Consumer Staples	0.02%	2.43%	10.77%
Real Estate	0.00%	0.75%	0.91%

**5 Bottom Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>Russell 1000 Growth Index Weighting</b>
Information Technology	-2.87%	30.08%	29.48%
Consumer Discretionary	-1.85%	21.86%	20.97%
Industrials	-0.85%	8.16%	10.79%
Telecommunication Services	-0.40%	0.00%	1.75%
Other**	-0.34%	2.86%	0.00%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

\* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

\*\* Not a GICS classified sector.

# Janus Aspen Forty Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Largest Equity Holdings - (% of Net Assets)

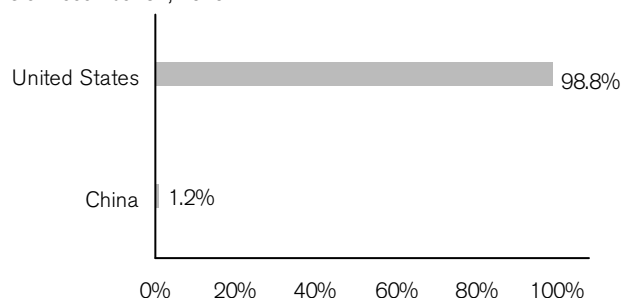
Microsoft Corp	
Software	6.3%
Alphabet Inc - Class C	
Internet Software & Services	5.5%
Zoetis Inc	
Pharmaceuticals	5.1%
Mastercard Inc	
Information Technology Services	4.3%
Amazon.com Inc	
Internet & Direct Marketing Retail	4.1%
	25.3%

#### Asset Allocation - (% of Net Assets)

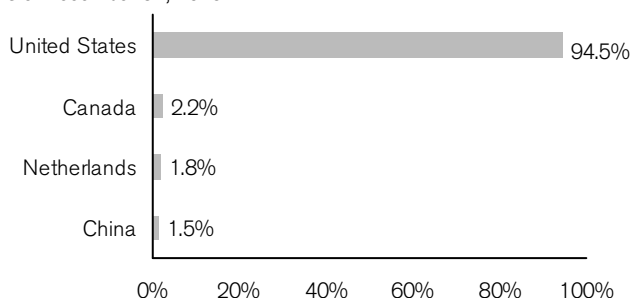
Common Stocks	99.8%
Investment Companies	1.3%
Other	(1.1)%
	100.0%

#### Top Country Allocations - Long Positions - (% of Investment Securities)

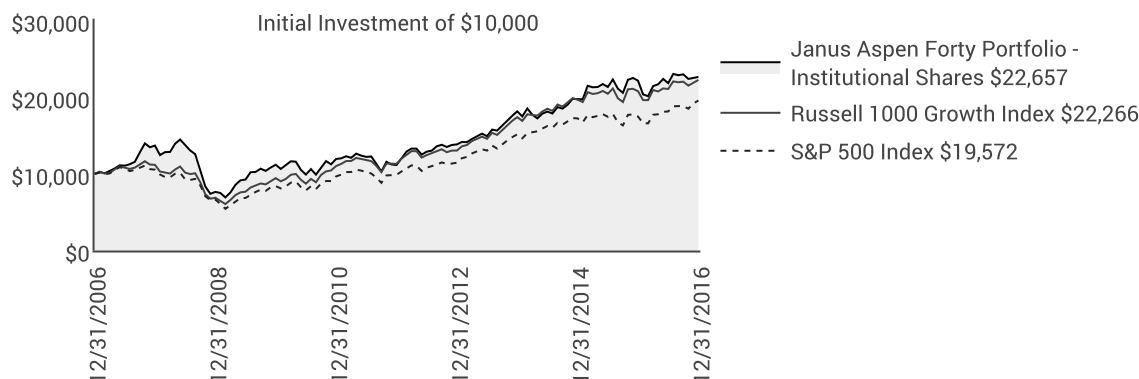
As of December 31, 2016



As of December 31, 2015



# Janus Aspen Forty Portfolio (unaudited) Performance



Average Annual Total Return - for the periods ended December 31, 2016					Expense Ratios - per the May 1, 2016 prospectuses
	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Institutional Shares	2.20%	15.23%	8.52%	10.56%	0.74%
Service Shares	1.94%	14.94%	8.25%	10.24%	0.99%
Russell 1000 Growth Index	7.08%	14.50%	8.33%	6.63%	
S&P 500 Index	11.96%	14.66%	6.95%	7.37%	
Morningstar Quartile - Institutional Shares	3rd	1st	1st	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	864/1,497	131/1,371	120/1,170	21/667	

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit [janus.com/variable-insurance](http://janus.com/variable-insurance).

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, portfolio holdings and other details.

Returns shown do not represent actual returns since they do not include insurance charges. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

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There is no assurance that the investment process will consistently lead to successful investing.

See important disclosures on the next page.

## **Janus Aspen Forty Portfolio (unaudited)**

### **Performance**

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective January 12, 2016, Douglas Rao and Nick Schommer are Co-Portfolio Managers of the Portfolio.

\*The Portfolio's inception date – May 1, 1997

# Janus Aspen Forty Portfolio (unaudited)

## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of \$1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit [www.finra.org/fundalyzer](http://www.finra.org/fundalyzer).

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples 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 transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Net Annualized Expense Ratio (7/1/16 - 12/31/16)
Institutional Shares	\$1,000.00	\$1,037.40	\$3.79	\$1,000.00	\$1,021.42	\$3.76	0.74%
Service Shares	\$1,000.00	\$1,036.40	\$5.07	\$1,000.00	\$1,020.16	\$5.03	0.99%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.



# Janus Aspen Forty Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – 99.8%		
Aerospace & Defense – 1.5%		
General Dynamics Corp	59,190	\$10,219,745
Automobiles – 0.9%		
Tesla Motors Inc*	28,318	6,051,273
Biotechnology – 5.4%		
Celgene Corp*	227,095	26,286,246
Regeneron Pharmaceuticals Inc*	29,477	10,820,712
		37,106,958
Capital Markets – 11.6%		
Charles Schwab Corp	619,369	24,446,495
Goldman Sachs Group Inc	83,422	19,975,398
Intercontinental Exchange Inc	430,538	24,290,954
S&P Global Inc	103,297	11,108,559
		79,821,406
Construction Materials – 2.5%		
Vulcan Materials Co	139,108	17,409,366
Containers & Packaging – 2.1%		
Sealed Air Corp	320,324	14,523,490
Equity Real Estate Investment Trusts (REITs) – 1.6%		
Crown Castle International Corp	128,076	11,113,155
Food & Staples Retailing – 2.5%		
Costco Wholesale Corp	108,159	17,317,338
Health Care Equipment & Supplies – 4.2%		
Boston Scientific Corp*	1,131,597	24,476,443
DexCom Inc*	75,893	4,530,812
		29,007,255
Hotels, Restaurants & Leisure – 1.4%		
Starbucks Corp	173,123	9,611,789
Industrial Conglomerates – 4.0%		
General Electric Co	859,804	27,169,806
Information Technology Services – 5.9%		
Mastercard Inc	287,977	29,733,625
PayPal Holdings Inc*	271,988	10,735,366
		40,468,991
Internet & Direct Marketing Retail – 7.9%		
Amazon.com Inc*	37,700	28,270,099
Ctrip.com International Ltd (ADR)*	201,394	8,055,760
Netflix Inc*	47,726	5,908,479
Priceline Group Inc*	8,123	11,908,805
		54,143,143
Internet Software & Services – 10.3%		
Alphabet Inc - Class C*	49,016	37,831,529
CoStar Group Inc*	74,748	14,089,251
Facebook Inc	163,360	18,794,568
		70,715,348
Life Sciences Tools & Services – 2.3%		
Quintiles IMS Holdings Inc*	211,937	16,117,809
Pharmaceuticals – 10.0%		
Allergan plc	100,155	21,033,552
Bristol-Myers Squibb Co	220,950	12,912,318
Zoetis Inc	655,649	35,096,891
		69,042,761
Road & Rail – 2.5%		
CSX Corp	484,109	17,394,036
Semiconductor & Semiconductor Equipment – 1.3%		
Texas Instruments Inc	123,210	8,990,634
Software – 16.7%		
Activision Blizzard Inc	486,235	17,557,946
Adobe Systems Inc*	215,445	22,180,063
Microsoft Corp	694,073	43,129,697

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Schedule of Investments

### December 31, 2016

	<i>Shares</i>	<i>Value</i>
Common Stocks – (continued)		
Software – (continued)		
salesforce.com Inc*	341,712	\$23,393,604
Workday Inc*	123,877	8,187,031
		114,448,341
Specialty Retail – 2.4%		
Lowe's Cos Inc	231,436	16,459,728
Textiles, Apparel & Luxury Goods – 2.8%		
NIKE Inc	377,275	19,176,888
Total Common Stocks (cost \$542,902,785)		686,309,260
Investment Companies – 1.3%		
Money Markets – 1.3%		
Janus Cash Liquidity Fund LLC, 0.4708% <sup>***</sup> (cost \$8,949,000)	8,949,000	8,949,000
Total Investments (total cost \$551,851,785) – 101.1%		695,258,260
Liabilities, net of Cash, Receivables and Other Assets – (1.1)%		(7,739,750)
Net Assets – 100%		\$687,518,510

#### Summary of Investments by Country - (Long Positions) (unaudited)

<i>Country</i>	<i>Value</i>	<i>% of Investment Securities</i>
United States	\$687,202,500	98.8 %
China	8,055,760	1.2
Total	\$695,258,260	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Notes to Schedule of Investments and Other Information

Russell 1000<sup>®</sup> Growth Index Measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500<sup>®</sup> Index Measures broad U.S. equity performance.

ADR American Depositary Receipt

LLC Limited Liability Company

PLC Public Limited Company

\* Non-income producing security.

°° Rate shown is the 7-day yield as of December 31, 2016.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	<i>Share Balance at 12/31/15</i>	<i>Purchases</i>	<i>Sales</i>	<i>Share Balance at 12/31/16</i>	<i>Realized Gain/(Loss)</i>	<i>Dividend Income</i>	<i>Value at 12/31/16</i>
Janus Cash Collateral Fund LLC	—	134,892,205	(134,892,205)	—	\$—	\$102,510 <sup>(1)</sup>	\$—
Janus Cash Liquidity Fund LLC	24,691,025	231,708,029	(247,450,054)	8,949,000	—	73,007	8,949,000
<b>Total</b>					<b>\$—</b>	<b>\$175,517</b>	<b>\$8,949,000</b>

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2016. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

	<i>Level 1 - Quotes Prices</i>	<i>Level 2 - Other Significant Observable Inputs</i>	<i>Level 3 - Significant Unobservable Inputs</i>
<b>Assets</b>			
<b>Investments in Securities:</b>			
<i>Common Stocks</i>	\$ 686,309,260	\$ -	\$ -
<i>Investment Companies</i>	-	8,949,000	-
<b>Total Assets</b>	<b>\$ 686,309,260</b>	<b>\$ 8,949,000</b>	<b>\$ -</b>

# Janus Aspen Forty Portfolio

## Statement of Assets and Liabilities

### December 31, 2016

<b>Assets:</b>		
Investments, at cost	\$	551,851,785
Unaffiliated investments, at value		686,309,260
Affiliated investments, at value		8,949,000
Cash		719
Non-interested Trustees' deferred compensation		12,898
<b>Receivables:</b>		
Dividends		291,267
Foreign tax reclaims		68,884
Portfolio shares sold		48,027
Dividends from affiliates		1,128
Other assets		9,238
<b>Total Assets</b>		<b>695,690,421</b>
<b>Liabilities:</b>		
<b>Payables:</b>		
Portfolio shares repurchased		7,517,146
Advisory fees		382,102
12b-1 Distribution and shareholder servicing fees		100,282
Transfer agent fees and expenses		33,722
Professional fees		22,387
Non-interested Trustees' deferred compensation fees		12,898
Portfolio administration fees		6,100
Non-interested Trustees' fees and expenses		6,015
Custodian fees		303
Accrued expenses and other payables		90,956
<b>Total Liabilities</b>		<b>8,171,911</b>
<b>Net Assets</b>	<b>\$</b>	<b>687,518,510</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid-in surplus)	\$	503,801,277
Undistributed net investment income/(loss)		121,926
Undistributed net realized gain/(loss) from investments and foreign currency transactions		40,192,137
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		143,403,170
<b>Total Net Assets</b>	<b>\$</b>	<b>687,518,510</b>
<b>Net Assets - Institutional Shares</b>	<b>\$</b>	<b>257,008,705</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		7,984,755
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>32.19</b>
<b>Net Assets - Service Shares</b>	<b>\$</b>	<b>430,509,805</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		13,983,137
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>30.79</b>

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Statement of Operations

### For the year ended December 31, 2016

Investment Income:		
Dividends	\$	6,306,962
Affiliated securities lending income, net		102,510
Dividends from affiliates		73,007
Foreign tax withheld		(9,724)
<b>Total Investment Income</b>		<b>6,472,755</b>
Expenses:		
Advisory fees		4,714,223
12b-1 Distribution and shareholder servicing fees:		
Service Shares		1,157,938
Transfer agent administrative fees and expenses:		
Institutional Shares		92,686
Service Shares		157,676
Other transfer agent fees and expenses:		
Institutional Shares		4,952
Service Shares		4,688
Portfolio administration fees		65,641
Shareholder reports expense		59,344
Professional fees		48,465
Non-interested Trustees' fees and expenses		23,574
Registration fees		12,062
Custodian fees		11,222
Other expenses		139,681
<b>Total Expenses</b>		<b>6,492,152</b>
<b>Net Investment Income/(Loss)</b>		<b>(19,397)</b>
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		40,288,179
<b>Total Net Realized Gain/(Loss) on Investments</b>		<b>40,288,179</b>
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		(26,711,467)
<b>Total Change in Unrealized Net Appreciation/Depreciation</b>		<b>(26,711,467)</b>
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>\$</b>	<b>13,557,315</b>

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Statements of Changes in Net Assets

	Year ended December 31, 2016	Year ended December 31, 2015
Operations:		
Net investment income/(loss)	\$ (19,397)	\$ (1,217,012)
Net realized gain/(loss) on investments	40,288,179	103,601,643
Change in unrealized net appreciation/depreciation	(26,711,467)	(11,093,868)
Net Increase/(Decrease) in Net Assets Resulting from Operations	13,557,315	91,290,763
Dividends and Distributions to Shareholders:		
Distributions from Net Realized Gain from Investment Transactions		
Institutional Shares	(37,062,653)	(57,445,111)
Service Shares	(65,123,788)	(102,554,820)
Net Decrease from Dividends and Distributions to Shareholders	(102,186,441)	(159,999,931)
Capital Share Transactions:		
Institutional Shares	(7,170,480)	18,828,189
Service Shares	(13,410,718)	54,810,568
Net Increase/(Decrease) from Capital Share Transactions	(20,581,198)	73,638,757
Net Increase/(Decrease) in Net Assets	(109,210,324)	4,929,589
Net Assets:		
Beginning of period	796,728,834	791,799,245
End of period	\$ 687,518,510	\$ 796,728,834
Undistributed Net Investment Income/(Loss)	\$ 121,926	\$ (16,127)

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Financial Highlights

### Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$36.37	\$40.27	\$53.34	\$40.95	\$33.22
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.05 <sup>(1)</sup>	0.03 <sup>(1)</sup>	0.03 <sup>(1)</sup>	0.38	0.47
Net realized and unrealized gain/(loss)	0.58	4.77	3.08	12.34	7.54
Total from Investment Operations	0.63	4.80	3.11	12.72	8.01
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	(0.09)	(0.33)	(0.28)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.18)	(0.33)	(0.28)
Net Asset Value, End of Period	\$32.19	\$36.37	\$40.27	\$53.34	\$40.95
Total Return*	2.20%	12.22%	8.73%	31.23%	24.16%
Net Assets, End of Period (in thousands)	\$257,009	\$295,725	\$299,546	\$355,429	\$488,374
Average Net Assets for the Period (in thousands)	\$273,374	\$298,904	\$307,359	\$491,231	\$512,799
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Investment Income/(Loss)	0.15%	0.08%	0.07%	0.31%	1.03%
Portfolio Turnover Rate	53%	55%	46%	61%	10%

### Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$35.08	\$39.21	\$52.40	\$40.28	\$32.72
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	(0.03) <sup>(1)</sup>	(0.06) <sup>(1)</sup>	(0.07) <sup>(1)</sup>	— <sup>(2)</sup>	0.31
Net realized and unrealized gain/(loss)	0.55	4.63	2.99	12.38	7.47
Total from Investment Operations	0.52	4.57	2.92	12.38	7.78
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	(0.02)	(0.26)	(0.22)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.11)	(0.26)	(0.22)
Net Asset Value, End of Period	\$30.79	\$35.08	\$39.21	\$52.40	\$40.28
Total Return*	1.94%	11.94%	8.47%	30.89%	23.82%
Net Assets, End of Period (in thousands)	\$430,510	\$501,003	\$492,253	\$526,971	\$471,002
Average Net Assets for the Period (in thousands)	\$464,943	\$501,868	\$493,575	\$486,845	\$468,967
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Investment Income/(Loss)	(0.09)%	(0.17)%	(0.17)%	0.04%	0.81%
Portfolio Turnover Rate	53%	55%	46%	61%	10%

\* Total return not annualized for periods of less than one full year.

\*\* Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

(2) Less than \$0.005 on a per share basis.

See Notes to Financial Statements.

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Forty Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. The Portfolio is classified as nondiversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that



# Janus Aspen Forty Portfolio

## Notes to Financial Statements

market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2016 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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.

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

### Indemnifications

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

### Foreign Currency Translations

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

### Dividends and Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

### Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Other Investments and Strategies

### Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

### Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

### Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

### Securities Lending

Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments (if applicable). Income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the lending agent are included as "Affiliated securities lending income, net" on the Statement of Operations. There were no securities on loan as of December 31, 2016.

### 3. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate) is 0.64%.

The investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the Russell 1000<sup>®</sup> Growth Index.

The calculation of the performance adjustment applies as follows:

Investment Advisory Fee = Base Fee Rate +/- Performance Adjustment

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period, which is generally the previous 36 months.

## Janus Aspen Forty Portfolio

### Notes to Financial Statements

The Portfolio's prospectuses and statement(s) of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee Rate plus/minus any Performance Adjustment. For the year ended December 31, 2016, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.64%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of \$56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2016 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2016 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of \$201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of \$1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2016, the Portfolio engaged in cross trades amounting to \$2,053,809 in purchases and \$1,835,025 in sales, resulting in a net realized loss of \$15,382. The net realized loss is included within the "Net Realized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

### 4. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

Undistributed Ordinary Income	Undistributed Long-Term Gains	Accumulated Capital Losses	Loss Deferrals		Other Book to Tax Differences	Net Tax Appreciation/ (Depreciation)
			Late-Year Ordinary Loss	Post-October Capital Loss		
\$ -	\$ 40,664,375	\$ -	\$ -	\$ -	\$ (16,204)	\$ 143,069,062

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
\$ 552,189,198	\$150,594,657	\$ (7,525,595)	\$ 143,069,062

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

*For the year ended December 31, 2016*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 6,435,775	\$ 95,750,666	\$ -	\$ (166,998)

*For the year ended December 31, 2015*

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 9,606,802	\$ 150,393,129	\$ -	\$ -

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

<i>Increase/(Decrease) to Capital</i>	<i>Increase/(Decrease) to Undistributed Net Investment Income/Loss</i>	<i>Increase/(Decrease) to Undistributed Net Realized Gain/Loss</i>
\$ (166,996)	\$ 157,450	\$ 9,546

## 5. Capital Share Transactions

	<i>Year ended December 31, 2016</i>		<i>Year ended December 31, 2015</i>	
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
Institutional Shares:				
Shares sold	699,774	\$ 23,356,199	1,146,883	\$ 44,193,370
Reinvested dividends and distributions	1,192,492	37,062,653	1,601,927	57,445,111
Shares repurchased	(2,038,134)	(67,589,332)	(2,057,242)	(82,810,292)
Net Increase/(Decrease)	(145,868)	\$ (7,170,480)	691,568	\$ 18,828,189
Service Shares:				
Shares sold	1,166,469	\$ 37,891,921	1,444,396	\$ 53,479,766
Reinvested dividends and distributions	2,187,564	65,123,788	2,961,444	102,554,820
Shares repurchased	(3,651,743)	(116,426,427)	(2,680,089)	(101,224,018)
Net Increase/(Decrease)	(297,710)	\$ (13,410,718)	1,725,751	\$ 54,810,568

# Janus Aspen Forty Portfolio

## Notes to Financial Statements

### 6. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>	<i>Purchases of Long-Term U.S. Government Obligations</i>	<i>Proceeds from Sales of Long-Term U.S. Government Obligations</i>
\$384,179,640	\$ 483,927,714	\$ -	\$ -

### 7. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.



# Janus Aspen Forty Portfolio

## Notes to Financial Statements

### 8. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

# Janus Aspen Forty Portfolio

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Forty Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Forty Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") as of December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and transfer agent, provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Denver, Colorado  
February 10, 2017

# Janus Aspen Forty Portfolio

## Additional Information (unaudited)

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at [janus.com/proxyvoting](http://janus.com/proxyvoting); and (iii) on the SEC's website at <http://www.sec.gov>. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through [janus.com/proxyvoting](http://janus.com/proxyvoting) and from the SEC's website at <http://www.sec.gov>.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at <http://www.sec.gov>; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's

## Janus Aspen Forty Portfolio

### Additional Information (unaudited)

business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

## Janus Aspen Forty Portfolio

### Additional Information (unaudited)

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The

## **Janus Aspen Forty Portfolio**

### **Additional Information (unaudited)**

term “unfair burden” is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an “unfair burden” will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds’ shareholders (the “Meetings”), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds’ shareholders for their approval.

#### ***Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period***

In the event shareholders of a Fund do not approve such Fund’s New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an “Interim Advisory Agreement” and collectively, the “Interim Advisory Agreements”) and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an “Interim Sub-Advisory Agreement” and collectively, the “Interim Sub-Advisory Agreements”) take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the “150-day period”) or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

#### ***Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio***

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the “Amended Advisory Agreement”) between Janus Capital and the Trust on behalf of

## Janus Aspen Forty Portfolio

### Additional Information (unaudited)

Janus Portfolio (for the purposes of this section, the “Fund” refers to Janus Portfolio) and other matters related to the proposed changes to the Fund’s name, principal investment strategies, and portfolio management team (the “Realignment”). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board’s consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see “Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period” above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the “Full Performance Rate”) and cumulative investment record of the Fund’s benchmark index (the “Performance Fee Benchmark”);
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund’s investment team will be able to more efficiently manage the Fund’s portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital’s belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund’s current investment approach;
- the Realignment was being proposed as part of Janus Capital’s efforts to streamline its product line;
- Janus Capital’s belief that the Fund would benefit from Janus Capital’s operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund’s portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund’s portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

# Janus Aspen Forty Portfolio

## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2016. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical \$10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, swaptions, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.



# Janus Aspen Forty Portfolio

## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

### Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

### Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

### Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the

## **Janus Aspen Forty Portfolio**

### **Useful Information About Your Portfolio Report (unaudited)**

period. The next line reflects the total return for the period. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Forty Portfolio

## Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

### Proposal

To elect eight Trustees, each of whom is considered "independent."

Trustees	Record Date Votes (\$)	Number of Votes (\$)		
		Affirmative	Withheld	Total
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

Trustees	Votes (%)			Percentage Voted (%)		
	Affirmative	Withheld	Total	Affirmative	Withheld	Total
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

## Janus Aspen Forty Portfolio

### Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Capital Gain Distributions	\$95,750,666
Dividends Received Deduction Percentage	80%

## **Janus Aspen Forty Portfolio**

### **Trustees and Officers (unaudited)**

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman	1/08-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
	Trustee	6/02-Present			

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	58	Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11-Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	58	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).



# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16-Present	Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	58	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	58	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
A. Douglas Rao 151 Detroit Street Denver, CO 80206 DOB: 1974	Executive Vice President and Co-Portfolio Manager Janus Aspen Forty Portfolio	6/13-Present	Portfolio Manager for other Janus accounts. Formerly, Partner and Portfolio Manager for Chautauqua Capital Management (2012-2013) and Portfolio Manager for Marsico Capital Management, LLC (2007-2012).
Nick Schommer 151 Detroit Street Denver, CO 80206 DOB: 1978	Executive Vice President and Co-Portfolio Manager Janus Aspen Forty Portfolio	1/16-Present	Portfolio Manager for other Janus accounts and Analyst for Janus Capital.
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Forty Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer  Vice President, Treasurer, and Principal Accounting Officer	3/05-Present  2/05-Present	Vice President of Janus Capital and Janus Services LLC.
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## **Janus Aspen Forty Portfolio Notes**

## Janus provides access to a wide range of investment disciplines.

### **Alternative**

Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

### **Asset Allocation**

Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

### **Fixed Income**

Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

### **Global & International**

Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

### **Growth & Core**

Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

### **Mathematical**

Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH<sup>®</sup> (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

### **Value**

Our value funds, managed by Perkins<sup>®</sup> (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to [janus.com/variable-insurance](http://janus.com/variable-insurance).**



**JANUS<sup>®</sup>**

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from [janus.com/variable-insurance](http://janus.com/variable-insurance). Read it carefully before you invest or send money.*

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NOT FDIC-INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
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# Janus Aspen Global Research Portfolio

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Janus Aspen Series

## HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings



**JANUS®**



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# Janus Aspen Global Research Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe that the best way to generate consistent excess returns is stock picking based on independent research. We focus the risks of the portfolio on what we are good at – research and stock selection – and seek to avoid unnecessary risks – macro risks and other portfolio biases. Therefore, we let sector experts drive the process and pick their best ideas and use a portfolio oversight team to monitor the risk of the portfolio and keep it focused on stock selection.

Team-Based Approach  
Led by Carmel Wellso,  
Director of Research

## PERFORMANCE SUMMARY

Janus Aspen Global Research Portfolio's Institutional Shares and Service Shares returned 2.07% and 1.82%, respectively, over the 12-month period ended December 31, 2016, while its primary benchmark, the MSCI World Index, returned 7.51%. The Portfolio's secondary benchmark, the MSCI All Country World Index, returned 7.86%.

## MARKET ENVIRONMENT

Overcoming several unexpected geopolitical developments, global stocks registered steady gains in 2016. The UK's decision to leave the European Union (EU) in June's "Brexit" referendum jolted markets, but investors soon regained their composure and sent shares – including those of the UK – higher. Similarly, the surprise election of Donald Trump to the U.S. presidency in November pushed U.S. equity benchmarks to record levels rather than send them lower as many had feared with such an outcome. Another late-year anti-establishment vote, this time in Italy, barely registered among investors, as did the Federal Reserve's (Fed) decision to raise interest rates in December for only the second time in a decade.

A recovery in crude oil prices after an early-year plunge propelled energy stocks, resulting in the sector being among the year's best performers. Other cyclical sectors also registered steady gains as investors expected that a Trump administration would champion pro-growth policies and fiscal initiatives, in both the U.S. and in other developed markets, would finally be undertaken. Given the bias toward improving global growth, historically defensive sectors lagged the broader market. On a country basis, the emerging markets of Brazil and Russia delivered strong results while benchmarks in China and India were flat to slightly negative. Gains in the U.S. largely outpaced those of Western Europe. Losses were most pronounced in Greece, Italy, Mexico and Turkey, among others.

## PERFORMANCE DISCUSSION

Our six global sector teams employ a bottom-up, fundamental approach to identify what we consider the best global opportunities. Our analysts take a long-term view of companies with a focus on value creation and duration of growth, which lead to high returns on invested capital. The Portfolio directly captures the insights of our teams through their highest conviction ideas. In building a diversified portfolio, we seek to minimize macroeconomic risks while generating superior performance over longer periods.

Detracting most from relative performance were the fund's financials and consumer holdings. Our selection of technology stocks contributed most to relative results.

Diplomat Pharmacy weighed on performance. Shares in the specialty pharmacy fell after the company missed review projections due to a slowdown in sales for hepatitis C drugs. The company also lowered its operating earnings guidance in this key business category.

NGK Spark Plug of Japan weighed on performance, caught up in a confluence of aggravating factors. A large portion of the company's operations are in Japan, thus making it highly sensitive to fluctuations in the Japanese yen. Operationally, the company continues to wrestle with turning around its ceramic package business. While it recently exited its plastic packaging division, the ceramics unit, upon which management has a more favorable view, has yet to signal a turnaround. Lastly, in anticipation of increased demand for spark plugs, the company has invested in expanding capacity and chose to aggressively depreciate the expenditure. We exited our holdings in NGK during the period.

Endo International was a large detractor. Endo and other specialty pharmaceutical companies suffered from a change in industry sentiment stemming from Valeant's problems. However, Endo was also impacted by a few

company-specific issues, including pricing pressure in its generics business and concerns it may have overpaid for a couple of acquisitions. While we still see some upside for the stock, we chose to exit the position.

Korean electronics giant Samsung registered strong performance during the latter part of the year. The company has three major sources of growth: smartphones, display and semiconductors. The stock had taken a hit earlier in the year due to issues with its Note 7 smartphone. Part of the recent strength was stabilization in that business segment after an earlier write down. At the same time, the other two main drivers continue to perform exceptionally well. This is especially true for semiconductors, where the company has a 45% global market share for DRAM chips.

A leading contributor to performance was semiconductor intellectual property licensing company ARM Holdings. During the period, SoftBank of Japan announced a \$32 billion acquisition of ARM. Given our favorable view of the company, we can see why SoftBank pursued the deal. ARM continues to experience increasing royalty revenues from the growth in smartphones and revenue licensing from semiconductor manufacturers. ARM cores are quickly becoming the de facto building block on which logic semiconductor companies build their processors. While historically strong in mobile, ARM's advantage is moving into the home, industrial, medical and other markets as well. In the wake of the acquisition announcement, we exited our position in the company.

Wireless communications provider T-Mobile US registered a strong quarter. Investors viewed the company as a possible beneficiary of any changes in the regulatory and tax climate that a Republican-controlled Washington may champion. The expectation is that the Federal Communications Commission may adopt a lighter touch to key industry issues. The company may also benefit from lower corporate tax rates in the U.S., as its operations are 100% domestic.

### OUTLOOK

Markets in 2016 were nothing if not resilient. The election of Donald J. Trump, the United Kingdom's decision to leave the European Union (Brexit), European politics, Fed rate policy, and other issues fueled, rather than stalled, a rally. Many observers, including us, feared short-term disruptions from these issues, in particular from Brexit and Mr. Trump's election. Although we felt that fundamentals ultimately would win out and that markets would recover,

the speed of the bounce-back was surprising. With each event, the short term went from days to hours to minutes.

As we head into 2017, macroeconomic themes and big risk factors no longer dominate. The main driver now is company-specific details, not the big picture. And for most companies, those details are positive. Pure defensive investments and yield plays have lost their luster, and rightfully so. We believe the Fed's decision in December to increase its benchmark rate will continue to prod investors out of bond proxies and into growth stocks, a transition that started shortly after the Brexit vote. The shift means growth companies with attractive valuations and sustainable business models will be, in our opinion, most attractive in the coming years. Our analysts continue to find these types of stocks across sectors.

For equities, our best-case scenario calls for a stronger U.S. economy, improved confidence and the return of risk-taking. In turn, active stock selection becomes especially important, as stocks are driven more by corporate fundamentals and less by macroeconomic forces. We also hope to see greater business investment to match a healthy consumer. Companies have been reluctant to invest, but greater confidence and perhaps fears of higher rates might propel firms to use their strong balance sheets for more than share buybacks and dividends. An improved tax policy, including lower corporate tax rates and the ability to repatriate overseas profits efficiently, also should make projects more attractive. We hope this confidence spills into Europe, which could deliver surprisingly faster growth in 2017, thanks to a weak euro and strong U.S. economy.

When fundamentals matter, it becomes increasingly important to ignore index weights and to be an active investor. We anticipate a reversal of the strong relative performance of major indices versus active managers in the coming quarters. In such an environment, sector observations and ultimately our stock analysis matter more. In the sectors our research teams cover, opportunities and challenges exist. We think the market will begin to sort out these issues by placing greater emphasis on corporate fundamentals and less on momentum, volatility, yield and other factors that until now have dominated market sentiment.

Rest assured we have not been swept away by Trumpmania. We understand that political risks continue, especially in Europe, where several countries will hold key elections in 2017. China is still going through an uncertain economic transition. The equity rally could

## Janus Aspen Global Research Portfolio (unaudited)

sputter if the progress of reform in the U.S. is slower than the market expects or if issues arise outside the U.S. In the U.S., for example, the financial sector soared after the election on the expectation of higher rates and lower regulation. Today, many bank stocks are pricing in a series of additional Fed rate moves and the ability of companies to improve their return on equity significantly. We may see that recovery, but the risk remains that banks now are structurally less profitable than they were before the financial crisis.

Of course, "Commander in Tweet" Trump can cause short-term sell-offs with just 140 characters. His policies and the rise of populism both in the U.S. and in Europe could lead to anti-growth measures, such as trade wars and restrictive immigration policies. In addition, an increasingly strong dollar benefits Europe and China but could impair U.S. exports and thwart the positive effects of growth-oriented reforms. In the end, however, we expect a highly pro-business administration that will be good for equity markets.

The post-Trump rally has been impressive, and that momentum could cool in the short term. We have discussed the return to active investing for several quarters. Today we believe we are solidly in the middle of this new long-term trend. In bursts of excitement, such as the days after November 8, investor flows move from markets to sectors and then to companies. We saw this pattern. Most indices soared but with a divergence among sectors. Financials ETFs, for example, rallied and pulled in record amounts of money. We are in the company picking stage now, we believe.

Thank you for your investment in Janus Aspen Global Research Portfolio.

# Janus Aspen Global Research Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Top Performers - Holdings

	Contribution
Samsung Electronics Co Ltd	0.39%
ARM Holdings PLC	0.37%
Anadarko Petroleum Corp	0.37%
T-Mobile US Inc	0.33%
TOTAL SA	0.33%

#### 5 Bottom Performers - Holdings

	Contribution
MPLX LP	-0.51%
NGK Spark Plug Co Ltd	-0.46%
Endo International PLC	-0.46%
Diplomat Pharmacy Inc	-0.33%
Jones Lang LaSalle Inc	-0.32%

#### 4 Top Performers - Sectors\*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	MSCI World Index Weighting
Technology	0.47%	19.09%	18.56%
Other**	-0.11%	0.30%	0.02%
Health Care	-0.34%	13.42%	13.61%
Energy	-0.51%	9.99%	10.03%

#### 3 Bottom Performers - Sectors\*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	MSCI World Index Weighting
Financials	-2.17%	20.83%	20.94%
Consumer	-1.70%	18.05%	18.52%
Industrials	-0.66%	18.32%	18.32%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

\* The sectors listed above reflect those covered by the seven analyst teams who comprise the Janus Research Team.

\*\* Not a covered sector.

# Janus Aspen Global Research Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Largest Equity Holdings - (% of Net Assets)

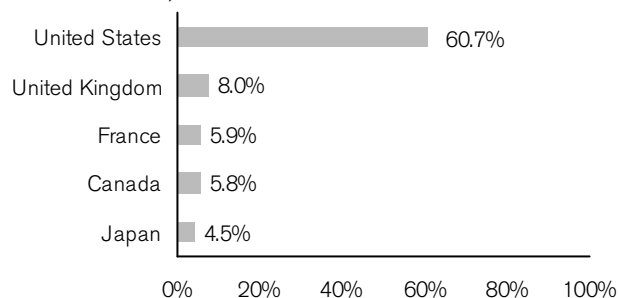
Alphabet Inc - Class C	
Internet Software & Services	2.1%
British American Tobacco PLC	
Tobacco	1.9%
AIA Group Ltd	
Insurance	1.7%
TOTAL SA	
Oil, Gas & Consumable Fuels	1.7%
Coca-Cola Co	
Beverages	1.5%
	8.9%

#### Asset Allocation - (% of Net Assets)

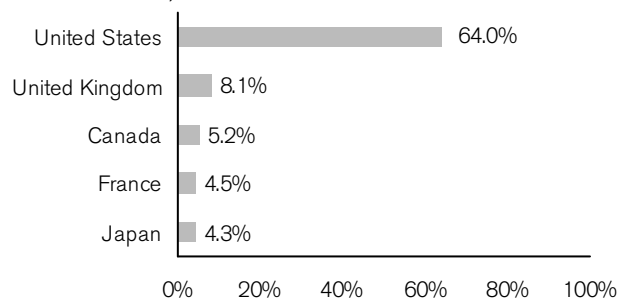
Common Stocks	99.6%
Investment Companies	0.3%
Other	0.1%
	100.0%

#### Top Country Allocations - Long Positions - (% of Investment Securities)

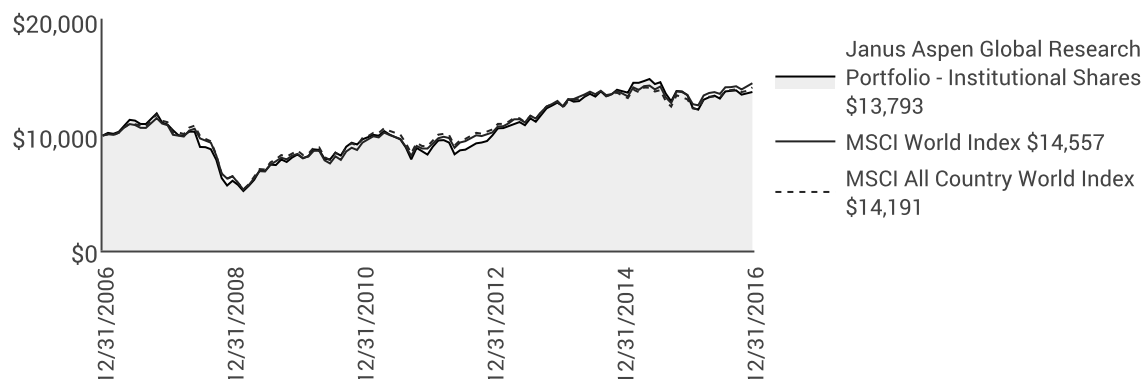
As of December 31, 2016



As of December 31, 2015



# Janus Aspen Global Research Portfolio (unaudited) Performance



Average Annual Total Return - for the periods ended December 31, 2016	Expense Ratios - per the May 1, 2016 prospectuses			
	One Year	Five Year	Ten Year	Since Inception*
Institutional Shares	2.07%	10.57%	3.27%	7.69%
Service Shares	1.82%	10.30%	3.01%	7.42%
MSCI World Index	7.51%	10.41%	3.83%	6.57%
MSCI All Country World Index	7.86%	9.36%	3.56%	N/A**
Morningstar Quartile - Institutional Shares	4th	1st	3rd	2nd
Morningstar Ranking - based on total returns for World Stock Funds	807/1,041	178/771	341/543	103/212
Total Annual Fund Operating Expenses				
Institutional Shares 0.85%				
Service Shares 1.10%				

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit [janus.com/variable-insurance](http://janus.com/variable-insurance).

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, portfolio holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Returns shown do not represent actual returns since they do not include insurance charges. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

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See important disclosures on the next page.

## **Janus Aspen Global Research Portfolio (unaudited)**

### **Performance**

There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

\*The Portfolio's inception date – September 13, 1993

\*\*Since inception return is not shown for the index because the index's inception date differs significantly from the Portfolio's inception date.



# Janus Aspen Global Research Portfolio (unaudited)

## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of \$1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit [www.finra.org/fundalyzer](http://www.finra.org/fundalyzer).

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples 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 transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Net Annualized Expense Ratio (7/1/16 - 12/31/16)
Institutional Shares	\$1,000.00	\$1,043.40	\$3.34	\$1,000.00	\$1,021.87	\$3.30	0.65%
Service Shares	\$1,000.00	\$1,042.20	\$4.62	\$1,000.00	\$1,020.61	\$4.57	0.90%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Global Research Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – 99.6%		
Aerospace & Defense – 2.5%		
General Dynamics Corp	40,163	\$6,934,544
Safran SA	129,618	9,330,816
		16,265,360
Airlines – 2.1%		
Ryanair Holdings PLC (ADR)*	58,537	4,873,791
United Continental Holdings Inc*	117,783	8,584,025
		13,457,816
Banks – 5.8%		
BNP Paribas SA	99,732	6,352,152
HDFC Bank Ltd	227,284	4,432,413
ING Groep NV	450,111	6,333,464
JPMorgan Chase & Co	83,307	7,188,561
Lloyds Banking Group PLC	2,566,203	1,973,164
Mitsubishi UFJ Financial Group Inc	1,044,800	6,424,219
US Bancorp	98,198	5,044,431
		37,748,404
Beverages – 2.6%		
Coca-Cola Co	241,119	9,996,794
Pernod Ricard SA	60,903	6,596,799
		16,593,593
Biotechnology – 5.0%		
Actelion Ltd*	20,717	4,479,254
Alder Biopharmaceuticals Inc*	106,054	2,205,923
Amgen Inc	50,645	7,404,805
Biogen Inc*	12,801	3,630,108
Celgene Corp*	58,224	6,739,428
Ironwood Pharmaceuticals Inc*	180,954	2,766,787
Shire PLC	88,786	5,030,325
		32,256,630
Building Products – 0.9%		
Geberit AG	14,472	5,793,296
Capital Markets – 5.4%		
Blackstone Group LP	187,624	5,071,477
Brookfield Asset Management Inc	131,027	4,325,201
Intercontinental Exchange Inc	110,175	6,216,073
London Stock Exchange Group PLC	118,361	4,251,911
S&P Global Inc	31,495	3,386,972
TD Ameritrade Holding Corp	177,441	7,736,428
UBS Group AG	274,706	4,301,772
		35,289,834
Chemicals – 1.2%		
Air Products & Chemicals Inc	55,899	8,039,394
Communications Equipment – 0.5%		
CommScope Holding Co Inc*	86,158	3,205,078
Construction Materials – 1.0%		
Vulcan Materials Co	49,794	6,231,719
Consumer Finance – 1.3%		
Synchrony Financial	236,533	8,579,052
Containers & Packaging – 0.9%		
Sealed Air Corp	129,879	5,888,714
Diversified Telecommunication Services – 0.6%		
Nippon Telegraph & Telephone Corp	99,400	4,178,894
Electric Utilities – 0.7%		
Brookfield Infrastructure Partners LP	137,734	4,609,957
Electrical Equipment – 3.1%		
ABB Ltd*	404,459	8,516,925
AMETEK Inc	118,440	5,756,184
Sensata Technologies Holding NV*	146,755	5,716,107
		19,989,216

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – (continued)		
Electronic Equipment, Instruments & Components – 2.3%		
Amphenol Corp	67,412	\$4,530,086
Flex Ltd*	180,203	2,589,517
Keyence Corp	11,400	7,812,040
		14,931,643
Energy Equipment & Services – 1.0%		
Halliburton Co	114,684	6,203,258
Equity Real Estate Investment Trusts (REITs) – 1.5%		
American Tower Corp	45,182	4,774,834
Simon Property Group Inc	27,974	4,970,141
		9,744,975
Food & Staples Retailing – 0.8%		
Kroger Co	143,044	4,936,448
Food Products – 1.9%		
Associated British Foods PLC	92,491	3,125,342
Hershey Co	90,104	9,319,457
		12,444,799
Health Care Equipment & Supplies – 1.2%		
Boston Scientific Corp*	347,756	7,521,962
Health Care Providers & Services – 2.2%		
Aetna Inc	71,143	8,822,443
Diplomat Pharmacy Inc*	99,751	1,256,863
Universal Health Services Inc	40,038	4,259,242
		14,338,548
Hotels, Restaurants & Leisure – 2.0%		
Merlin Entertainments PLC	516,686	2,854,493
Norwegian Cruise Line Holdings Ltd*	71,189	3,027,668
Starbucks Corp	129,674	7,199,500
		13,081,661
Household Durables – 0.5%		
Sony Corp	124,800	3,468,772
Independent Power and Renewable Electricity Producers – 0.7%		
NRG Energy Inc	382,750	4,692,515
Industrial Conglomerates – 0.5%		
Seibu Holdings Inc	198,900	3,559,934
Information Technology Services – 3.7%		
Amdocs Ltd	38,621	2,249,673
InterXion Holding NV*	49,212	1,725,865
Mastercard Inc	79,099	8,166,972
Visa Inc	87,870	6,855,617
Worldpay Group PLC	1,430,593	4,743,622
		23,741,749
Insurance – 3.3%		
AIA Group Ltd	2,027,800	11,348,692
Progressive Corp	153,136	5,436,328
Prudential PLC	225,703	4,501,157
		21,286,177
Internet & Direct Marketing Retail – 1.9%		
Amazon.com Inc*	7,832	5,872,982
Ctrip.com International Ltd (ADR)*	59,174	2,366,960
Priceline Group Inc*	2,854	4,184,135
		12,424,077
Internet Software & Services – 4.3%		
Alibaba Group Holding Ltd (ADR)*	51,960	4,562,608
Alphabet Inc - Class C*	17,569	13,560,106
CoStar Group Inc*	14,554	2,743,283
Facebook Inc	58,375	6,716,044
		27,582,041
Leisure Products – 1.1%		
Mattel Inc	117,042	3,224,507

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Schedule of Investments

### December 31, 2016

	Shares	Value
Common Stocks – (continued)		
Leisure Products – (continued)		
Polaris Industries Inc	45,623	\$3,758,879
		6,983,386
Machinery – 2.8%		
FANUC Corp	23,800	4,025,112
Illinois Tool Works Inc	52,727	6,456,948
IMI PLC	231,128	2,946,970
KION Group AG	56,786	3,155,496
Rexnord Corp*	95,818	1,877,075
		18,461,601
Media – 2.2%		
Comcast Corp	127,107	8,776,738
Liberty Global PLC*	176,138	5,231,299
		14,008,037
Multiline Retail – 0.6%		
Dollar Tree Inc*	46,299	3,573,357
Multi-Utilities – 1.0%		
National Grid PLC	555,475	6,495,386
Oil, Gas & Consumable Fuels – 7.2%		
Anadarko Petroleum Corp	99,860	6,963,238
Antero Resources Corp*	200,922	4,751,805
Canadian Natural Resources Ltd	169,217	5,393,516
Enterprise Products Partners LP	365,892	9,893,720
MEG Energy Corp*	193,105	1,327,642
Suncor Energy Inc	225,561	7,375,887
TOTAL SA	217,035	11,077,546
		46,783,354
Personal Products – 0.8%		
Estee Lauder Cos Inc	38,270	2,927,272
Unilever NV	60,693	2,494,099
		5,421,371
Pharmaceuticals – 4.2%		
Bristol-Myers Squibb Co	48,372	2,826,860
Eli Lilly & Co	43,432	3,194,424
Mallinckrodt PLC*	83,941	4,181,941
Pfizer Inc	293,025	9,517,452
Sanofi	57,999	4,690,044
Teva Pharmaceutical Industries Ltd (ADR)	71,150	2,579,188
		26,989,909
Professional Services – 0.8%		
Verisk Analytics Inc*	66,724	5,415,987
Real Estate Management & Development – 0.8%		
Jones Lang LaSalle Inc	48,193	4,869,421
Road & Rail – 1.4%		
Canadian Pacific Railway Ltd	61,321	8,749,833
Semiconductor & Semiconductor Equipment – 1.4%		
ASML Holding NV	19,220	2,153,169
Taiwan Semiconductor Manufacturing Co Ltd	1,279,000	7,163,337
		9,316,506
Software – 4.2%		
Activision Blizzard Inc	123,535	4,460,849
Adobe Systems Inc*	41,425	4,264,704
Constellation Software Inc/Canada	6,913	3,141,720
salesforce.com Inc*	92,451	6,329,195
SS&C Technologies Holdings Inc	197,146	5,638,376
Ultimate Software Group Inc*	20,121	3,669,064
		27,503,908
Specialty Retail – 0.9%		
Lowe's Cos Inc	81,401	5,789,239

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Schedule of Investments

### December 31, 2016

	<i>Shares</i>	<i>Value</i>
Common Stocks – (continued)		
Technology Hardware, Storage & Peripherals – 1.9%		
Apple Inc	48,381	\$5,603,487
Samsung Electronics Co Ltd	4,631	6,843,704
		12,447,191
Textiles, Apparel & Luxury Goods – 2.3%		
Cie Financiere Richemont SA	38,699	2,563,086
Gildan Activewear Inc	113,084	2,868,941
NIKE Inc	104,563	5,314,937
Samsonite International SA	1,540,119	4,381,843
		15,128,807
Tobacco – 1.9%		
British American Tobacco PLC	220,902	12,540,488
Trading Companies & Distributors – 1.2%		
Brenntag AG	143,375	7,943,834
Wireless Telecommunication Services – 1.5%		
T-Mobile US Inc*	113,267	6,513,985
Vodafone Group PLC	1,272,054	3,128,066
		9,642,051
Total Common Stocks (cost \$571,757,095)		646,149,182
Investment Companies – 0.3%		
Money Markets – 0.3%		
Janus Cash Liquidity Fund LLC, 0.4708% <sup>ess</sup> (cost \$1,837,116)	1,837,116	1,837,116
Total Investments (total cost \$573,594,211) – 99.9%		647,986,298
Cash, Receivables and Other Assets, net of Liabilities – 0.1%		459,815
Net Assets – 100%		\$648,446,113

#### Summary of Investments by Country - (Long Positions) (unaudited)

<i>Country</i>	<i>Value</i>	<i>% of Investment Securities</i>
United States	\$393,073,553	60.7 %
United Kingdom	51,590,924	8.0
France	38,047,357	5.9
Canada	37,792,697	5.8
Japan	29,468,971	4.5
Switzerland	25,654,333	4.0
Hong Kong	15,730,535	2.4
Netherlands	12,706,597	2.0
Germany	11,099,330	1.7
Taiwan	7,163,337	1.1
China	6,929,568	1.1
South Korea	6,843,704	1.0
Ireland	4,873,791	0.7
India	4,432,413	0.7
Israel	2,579,188	0.4
Total	\$647,986,298	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Notes to Schedule of Investments and Other Information

MSCI All Country World Index<sup>SM</sup> An unmanaged, free float-adjusted market capitalization weighted index composed of stocks of companies located in countries throughout the world. It is designed to measure equity market performance in global developed and emerging markets. The index includes reinvestment of dividends, net of foreign withholding taxes.

MSCI World Index<sup>SM</sup> A market capitalization weighted index composed of companies representative of the market structure of Developed Market countries in North America, Europe and the Asia/Pacific Region. The index includes reinvestment of dividends, net of foreign withholding taxes.

ADR American Depositary Receipt

LLC Limited Liability Company

LP Limited Partnership

PLC Public Limited Company

\* Non-income producing security.

°° Rate shown is the 7-day yield as of December 31, 2016.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	<i>Share Balance at 12/31/15</i>	<i>Purchases</i>	<i>Sales</i>	<i>Share Balance at 12/31/16</i>	<i>Realized Gain/(Loss)</i>	<i>Dividend Income</i>	<i>Value at 12/31/16</i>
Janus Cash Collateral Fund LLC	1,880,835	33,987,163	(35,867,998)	—	\$—	\$47,721 <sup>(1)</sup>	\$—
Janus Cash Liquidity Fund LLC	1,804,000	71,519,670	(71,486,554)	1,837,116	—	4,630	1,837,116
<b>Total</b>					<b>\$—</b>	<b>\$52,351</b>	<b>\$1,837,116</b>

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

# Janus Aspen Global Research Portfolio

## Notes to Schedule of Investments and Other Information

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2016. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

	<i>Level 1 - Quotes Prices</i>	<i>Level 2 - Other Significant Observable Inputs</i>	<i>Level 3 - Significant Unobservable Inputs</i>
<b>Assets</b>			
<b>Investments in Securities:</b>			
<i>Common Stocks</i>			
Aerospace & Defense	\$ 6,934,544	\$ 9,330,816	\$ -
Banks	12,232,992	25,515,412	-
Beverages	9,996,794	6,596,799	-
Biotechnology	22,747,051	9,509,579	-
Building Products	-	5,793,296	-
Capital Markets	26,736,151	8,553,683	-
Diversified Telecommunication Services	-	4,178,894	-
Electrical Equipment	11,472,291	8,516,925	-
Electronic Equipment, Instruments & Components	7,119,603	7,812,040	-
Food Products	9,319,457	3,125,342	-
Hotels, Restaurants & Leisure	10,227,168	2,854,493	-
Household Durables	-	3,468,772	-
Industrial Conglomerates	-	3,559,934	-
Information Technology Services	18,998,127	4,743,622	-
Insurance	5,436,328	15,849,849	-
Machinery	8,334,023	10,127,578	-
Multi-Utilities	-	6,495,386	-
Oil, Gas & Consumable Fuels	21,608,763	25,174,591	-
Personal Products	2,927,272	2,494,099	-
Pharmaceuticals	22,299,865	4,690,044	-
Road & Rail	-	8,749,833	-
Semiconductor & Semiconductor Equipment	-	9,316,506	-
Software	24,362,188	3,141,720	-
Technology Hardware, Storage & Peripherals	5,603,487	6,843,704	-
Textiles, Apparel & Luxury Goods	8,183,878	6,944,929	-
Tobacco	-	12,540,488	-
Trading Companies & Distributors	-	7,943,834	-
Wireless Telecommunication Services	6,513,985	3,128,066	-
All Other	178,094,981	-	-
<i>Investment Companies</i>	-	1,837,116	-
<b>Total Assets</b>	<b>\$ 419,148,948</b>	<b>\$ 228,837,350</b>	<b>\$ -</b>

# Janus Aspen Global Research Portfolio

## Statement of Assets and Liabilities

### December 31, 2016

<b>Assets:</b>		
Investments, at cost	\$	573,594,211
Unaffiliated investments, at value		646,149,182
Affiliated investments, at value		1,837,116
Cash		104,637
Non-interested Trustees' deferred compensation		12,036
<b>Receivables:</b>		
Dividends		617,022
Foreign tax reclaims		286,125
Portfolio shares sold		86,504
Dividends from affiliates		1,386
Other assets		8,400
<b>Total Assets</b>		<b>649,102,408</b>
<b>Liabilities:</b>		
<b>Payables:</b>		
Advisory fees		307,633
Portfolio shares repurchased		178,825
12b-1 Distribution and shareholder servicing fees		40,809
Transfer agent fees and expenses		31,362
Professional fees		22,506
Non-interested Trustees' deferred compensation fees		12,036
Printing fees		9,502
Postage fees		6,964
Portfolio administration fees		5,610
Non-interested Trustees' fees and expenses		5,419
Custodian fees		4,892
Accrued expenses and other payables		30,737
<b>Total Liabilities</b>		<b>656,295</b>
<b>Net Assets</b>	<b>\$</b>	<b>648,446,113</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid-in surplus)	\$	708,103,557
Undistributed net investment income/(loss)		1,849,588
Undistributed net realized gain/(loss) from investments and foreign currency transactions		(135,873,772)
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		74,366,740
<b>Total Net Assets</b>	<b>\$</b>	<b>648,446,113</b>
<b>Net Assets - Institutional Shares</b>	<b>\$</b>	<b>469,321,392</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		11,549,987
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>40.63</b>
<b>Net Assets - Service Shares</b>	<b>\$</b>	<b>179,124,721</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		4,493,114
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>39.87</b>

See Notes to Financial Statements.



# Janus Aspen Global Research Portfolio

## Statement of Operations

### For the year ended December 31, 2016

Investment Income:		
Dividends	\$	12,731,468
Affiliated securities lending income, net		47,721
Dividends from affiliates		4,630
Other income		1,065
Foreign tax withheld		(783,650)
<b>Total Investment Income</b>		<b>12,001,234</b>
Expenses:		
Advisory fees		3,716,581
12b-1 Distribution and shareholder servicing fees:		
Service Shares		464,675
Transfer agent administrative fees and expenses:		
Institutional Shares		162,721
Service Shares		63,064
Other transfer agent fees and expenses:		
Institutional Shares		9,698
Service Shares		2,340
Shareholder reports expense		81,722
Portfolio administration fees		58,831
Professional fees		50,576
Custodian fees		35,338
Registration fees		22,617
Non-interested Trustees' fees and expenses		20,891
Other expenses		115,463
<b>Total Expenses</b>		<b>4,804,517</b>
<b>Net Investment Income/(Loss)</b>		<b>7,196,717</b>
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		(8,835,260)
<b>Total Net Realized Gain/(Loss) on Investments</b>		<b>(8,835,260)</b>
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		13,297,687
<b>Total Change in Unrealized Net Appreciation/Depreciation</b>		<b>13,297,687</b>
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>	<b>\$</b>	<b>11,659,144</b>

See Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Statements of Changes in Net Assets

	<i>Year ended</i>		<i>Year ended</i>	
	<i>December 31, 2016</i>		<i>December 31, 2015</i>	
Operations:				
Net investment income/(loss)	\$	7,196,717	\$	5,879,567
Net realized gain/(loss) on investments		(8,835,260)		30,643,198
Change in unrealized net appreciation/depreciation		13,297,687		(52,647,904)
Net Increase/(Decrease) in Net Assets Resulting from Operations		11,659,144		(16,125,139)
Dividends and Distributions to Shareholders:				
Dividends from Net Investment Income				
Institutional Shares		(5,169,230)		(3,640,735)
Service Shares		(1,761,489)		(1,154,292)
Net Decrease from Dividends and Distributions to Shareholders		(6,930,719)		(4,795,027)
Capital Share Transactions:				
Institutional Shares		(43,882,862)		(47,348,888)
Service Shares		(24,789,291)		(4,825,171)
Net Increase/(Decrease) from Capital Share Transactions		(68,672,153)		(52,174,059)
Net Increase/(Decrease) in Net Assets		(63,943,728)		(73,094,225)
Net Assets:				
Beginning of period		712,389,841		785,484,066
End of period	\$	648,446,113	\$	712,389,841
Undistributed Net Investment Income/(Loss)	\$	1,849,588	\$	3,023,841

See Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Financial Highlights

### Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$40.24	\$41.45	\$38.99	\$30.74	\$25.83
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.45 <sup>(1)</sup>	0.35 <sup>(1)</sup>	0.51 <sup>(1)</sup>	0.38	0.37
Net realized and unrealized gain/(loss)	0.37	(1.28)	2.39	8.29	4.79
Total from Investment Operations	0.82	(0.93)	2.90	8.67	5.16
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.43)	(0.28)	(0.44)	(0.42)	(0.25)
Distributions (from capital gains)	—	—	—	—	—
Total Dividends and Distributions	(0.43)	(0.28)	(0.44)	(0.42)	(0.25)
Net Asset Value, End of Period	\$40.63	\$40.24	\$41.45	\$38.99	\$30.74
Total Return*	2.07%	(2.29)%	7.44%	28.43%	20.08%
Net Assets, End of Period (in thousands)	\$469,321	\$509,494	\$571,145	\$588,619	\$516,001
Average Net Assets for the Period (in thousands)	\$478,402	\$560,660	\$577,941	\$550,131	\$505,342
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.65%	0.80%	0.61%	0.53%	0.55%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.65%	0.80%	0.61%	0.53%	0.55%
Ratio of Net Investment Income/(Loss)	1.15%	0.83%	1.27%	0.99%	1.19%
Portfolio Turnover Rate	45%	50%	42%	101%	56%

### Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$39.53	\$40.77	\$38.40	\$30.31	\$25.51
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.35 <sup>(1)</sup>	0.24 <sup>(1)</sup>	0.40 <sup>(1)</sup>	0.25	0.23
Net realized and unrealized gain/(loss)	0.36	(1.26)	2.35	8.22	4.79
Total from Investment Operations	0.71	(1.02)	2.75	8.47	5.02
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.37)	(0.22)	(0.38)	(0.38)	(0.22)
Distributions (from capital gains)	—	—	—	—	—
Total Dividends and Distributions	(0.37)	(0.22)	(0.38)	(0.38)	(0.22)
Net Asset Value, End of Period	\$39.87	\$39.53	\$40.77	\$38.40	\$30.31
Total Return*	1.82%	(2.53)%	7.18%	28.12%	19.77%
Net Assets, End of Period (in thousands)	\$179,125	\$202,896	\$214,339	\$202,707	\$156,774
Average Net Assets for the Period (in thousands)	\$186,563	\$218,006	\$209,230	\$181,844	\$149,451
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.90%	1.05%	0.86%	0.78%	0.80%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.90%	1.05%	0.86%	0.78%	0.80%
Ratio of Net Investment Income/(Loss)	0.91%	0.57%	1.01%	0.75%	0.94%
Portfolio Turnover Rate	45%	50%	42%	101%	56%

\* Total return not annualized for periods of less than one full year.

\*\* Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

See Notes to Financial Statements.

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Global Research Portfolio (the “Portfolio”) is a series fund. The Portfolio is part of Janus Aspen Series (the “Trust”), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to “control” the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the “Valuation Procedures”). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter (“OTC”) markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange (“NYSE”). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to “odd-lot” fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2016 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year. The following describes the amounts of transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year.

Financial assets of \$158,330,874 were transferred out of Level 1 to Level 2 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the current fiscal year and no factor was applied at the end of the prior fiscal year.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

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.

### Indemnifications

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

### Foreign Currency Translations

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

### Dividends and Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

### Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Other Investments and Strategies

### Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

### Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

### Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

### Securities Lending

Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments (if applicable). Income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the lending agent are included as "Affiliated securities lending income, net" on the Statement of Operations. There were no securities on loan as of December 31, 2016.

### 3. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate) is 0.60%.

The investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the MSCI World Index<sup>SM</sup>.

The calculation of the performance adjustment applies as follows:

Investment Advisory Fee = Base Fee Rate +/- Performance Adjustment

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the



# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period, which is generally the previous 36 months.

The Portfolio's prospectuses and statement(s) of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee Rate plus/minus any Performance Adjustment. For the year ended December 31, 2016, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.56%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of \$56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2016 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2016 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of \$201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of \$1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2016, the Portfolio engaged in cross trades amounting to \$78,788 in purchases and \$2,360,455 in sales, resulting in a net realized gain of \$324,118. The net realized gain is included within the "Net Realized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

### 4. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation, derivatives, and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

Undistributed Ordinary Income	Undistributed Long-Term Gains	Accumulated Capital Losses	Loss Deferrals		Other Book to Tax Differences	Net Tax Appreciation/ (Depreciation)
			Late-Year Ordinary Loss	Post-October Capital Loss		
\$ 1,861,083	\$ -	\$(136,969,859)	\$ -	\$ -	\$ (37,383)	\$ 75,488,715

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

Accumulated capital losses noted below represent net capital loss carryovers, as of December 31, 2016, that may be available to offset future realized capital gains and thereby reduce future taxable gains distributions. Under the Regulated Investment Company Modernization Act of 2010, the Portfolio is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. The following table shows these capital loss carryovers.

### Capital Loss Carryover Schedule

For the year ended December 31, 2016

No Expiration			Accumulated
December 31, 2017	Short-Term	Long-Term	Capital Losses
\$ (127,348,296)	\$(8,969,179)	\$(652,384)	\$(136,969,859)

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Tax Appreciation/ (Depreciation)
\$ 572,497,583	\$107,202,310	\$(31,713,595)	\$ 75,488,715

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

For the year ended December 31, 2016

Distributions			
From Ordinary Income	From Long-Term Capital Gains	Tax Return of Capital	Net Investment Loss
\$ 6,930,719	\$ -	\$ -	\$ -

For the year ended December 31, 2015

Distributions			
From Ordinary Income	From Long-Term Capital Gains	Tax Return of Capital	Net Investment Loss
\$ 4,795,027	\$ -	\$ -	\$ -

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

Increase/(Decrease) to Capital	Increase/(Decrease) to Undistributed Net Investment Income/Loss	Increase/(Decrease) to Undistributed Net Realized Gain/Loss
\$ -	\$ (1,440,251)	\$ 1,440,251

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

### 5. Capital Share Transactions

	Year ended December 31, 2016		Year ended December 31, 2015	
	Shares	Amount	Shares	Amount
Institutional Shares:				
Shares sold	330,908	\$ 13,244,254	345,913	\$ 14,870,432
Reinvested dividends and distributions	129,490	5,169,230	84,766	3,640,735
Shares repurchased	(1,571,385)	(62,296,346)	(1,548,262)	(65,860,055)
Net Increase/(Decrease)	(1,110,987)	\$(43,882,862)	(1,117,583)	\$(47,348,888)
Service Shares:				
Shares sold	311,672	\$ 12,027,682	758,532	\$ 32,048,121
Reinvested dividends and distributions	44,979	1,761,489	27,329	1,154,292
Shares repurchased	(996,725)	(38,578,462)	(910,448)	(38,027,584)
Net Increase/(Decrease)	(640,074)	\$(24,789,291)	(124,587)	\$ (4,825,171)

### 6. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>	<i>Purchases of Long-Term U.S. Government Obligations</i>	<i>Proceeds from Sales of Long-Term U.S. Government Obligations</i>
\$296,785,642	\$ 364,588,804	\$ -	\$ -

### 7. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by

# Janus Aspen Global Research Portfolio

## Notes to Financial Statements

Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.

### **8. Subsequent Event**

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

# Janus Aspen Global Research Portfolio

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Global Research Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Global Research Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") as of December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and transfer agent, provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Denver, Colorado  
February 10, 2017

# Janus Aspen Global Research Portfolio

## Additional Information (unaudited)

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at [janus.com/proxyvoting](http://janus.com/proxyvoting); and (iii) on the SEC's website at <http://www.sec.gov>. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through [janus.com/proxyvoting](http://janus.com/proxyvoting) and from the SEC's website at <http://www.sec.gov>.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at <http://www.sec.gov>; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's

## Janus Aspen Global Research Portfolio

### Additional Information (unaudited)

business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:



# Janus Aspen Global Research Portfolio

## Additional Information (unaudited)

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The

# Janus Aspen Global Research Portfolio

## Additional Information (unaudited)

term “unfair burden” is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an “unfair burden” will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds’ shareholders (the “Meetings”), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds’ shareholders for their approval.

### ***Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period***

In the event shareholders of a Fund do not approve such Fund’s New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an “Interim Advisory Agreement” and collectively, the “Interim Advisory Agreements”) and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an “Interim Sub-Advisory Agreement” and collectively, the “Interim Sub-Advisory Agreements”) take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the “150-day period”) or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

### ***Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio***

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the “Amended Advisory Agreement”) between Janus Capital and the Trust on behalf of

# Janus Aspen Global Research Portfolio

## Additional Information (unaudited)

Janus Portfolio (for the purposes of this section, the “Fund” refers to Janus Portfolio) and other matters related to the proposed changes to the Fund's name, principal investment strategies, and portfolio management team (the “Realignment”). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board's consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see “Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period” above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the “Full Performance Rate”) and cumulative investment record of the Fund's benchmark index (the “Performance Fee Benchmark”);
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund's investment team will be able to more efficiently manage the Fund's portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital's belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund's current investment approach;
- the Realignment was being proposed as part of Janus Capital's efforts to streamline its product line;
- Janus Capital's belief that the Fund would benefit from Janus Capital's operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund's portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund's portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

# Janus Aspen Global Research Portfolio

## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2016. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical \$10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, swaptions, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Global Research Portfolio

## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

### Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

### Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

### Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the

## **Janus Aspen Global Research Portfolio**

### **Useful Information About Your Portfolio Report (unaudited)**

period. The next line reflects the total return for the period. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Global Research Portfolio

## Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

### Proposal

To elect eight Trustees, each of whom is considered "independent."

<i>Trustees</i>	<i>Record Date Votes (\$)</i>	<i>Number of Votes (\$)</i>		
		<i>Affirmative</i>	<i>Withheld</i>	<i>Total</i>
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

<i>Trustees</i>	<i>Votes (%)</i>			<i>Percentage Voted (%)</i>		
	<i>Affirmative</i>	<i>Withheld</i>	<i>Total</i>	<i>Affirmative</i>	<i>Withheld</i>	<i>Total</i>
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

## Janus Aspen Global Research Portfolio

### Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Dividends Received Deduction Percentage	82%
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## **Janus Aspen Global Research Portfolio**

### **Trustees and Officers (unaudited)**

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman	1/08-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
	Trustee	6/02-Present			

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	58	Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11- Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	58	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16-Present	Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	58	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	58	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Carmel Wellso 151 Detroit Street Denver, CO 80206 DOB: 1964	Executive Vice President Janus Aspen Global Research Portfolio	12/14-Present	Vice President and Director of Research of Janus Capital, and Portfolio Manager for other Janus accounts. Formerly, Research Analyst for Janus Capital (2008-2014).
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.



# Janus Aspen Global Research Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer Vice President, Treasurer, and Principal Accounting Officer	3/05-Present 2/05-Present	Vice President of Janus Capital and Janus Services LLC.
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## **Janus Aspen Global Research Portfolio**

### **Notes**

## Janus provides access to a wide range of investment disciplines.

### Alternative

Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

### Asset Allocation

Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

### Fixed Income

Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

### Global & International

Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

### Growth & Core

Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

### Mathematical

Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH<sup>®</sup> (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

### Value

Our value funds, managed by Perkins<sup>®</sup> (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to [janus.com/variable-insurance](http://janus.com/variable-insurance).**



**JANUS<sup>®</sup>**

*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from [janus.com/variable-insurance](http://janus.com/variable-insurance). Read it carefully before you invest or send money.*

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Funds distributed by Janus Distributors LLC

Investment products offered are: 

NOT FDIC-INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
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# Janus Aspen Janus Portfolio

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Janus Aspen Series

## HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings



**JANUS®**

# Table of Contents

## **Janus Aspen Janus Portfolio**

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# Janus Aspen Janus Portfolio (unaudited)

## PORTFOLIO SNAPSHOT

We believe that buying high-quality growth franchises with sustainable, projected above-average earnings growth for the next five-plus years and a market leadership position driven by a clearly articulated strategy should allow us to outperform the benchmark and peers over the long-term. We perform in-depth, fundamental research to build a diversified, moderately positioned portfolio aiming to deliver peer and index-beating returns while managing for risk and volatility.



Jean Barnard  
co-portfolio manager

Barney Wilson  
co-portfolio manager

## PERFORMANCE REVIEW

For the 12-month period ended December 31, 2016, Janus Aspen Janus Portfolio's Institutional Shares and Service Shares returned 0.50% and 0.27%, respectively. Meanwhile, the Portfolio's primary benchmark, the Russell 1000 Growth Index, returned 7.08% and its secondary benchmarks, the S&P 500 Index and the Core Growth Index, returned 11.96% and 9.50%, respectively.

## INVESTMENT ENVIRONMENT

Stocks registered gains in 2016, but experienced brief bouts of volatility. Equities started the year lower due to concerns about the health of the Chinese economy and fear about how falling oil prices could affect the energy sector. The UK's decision to leave the European Union (EU) in June's "Brexit" referendum jolted markets, but investors soon regained their composure and sent shares higher. Stocks climbed after the November U.S. presidential election, on the expectation that the new administration would champion pro-growth initiatives.

## PERFORMANCE DISCUSSION

The Portfolio underperformed its primary benchmark, the Russell 1000 Growth Index, and also its secondary benchmarks, the S&P 500 Index and the Core Growth Index. As part of our investment process, we seek companies with clearly definable and sustainable long-term growth drivers. These companies often have a high barrier to entry, a notable competitive edge in an attractive, growing industry, or a strong management team with a clear vision for the future of their company. While we had some stocks that produced disappointing results during the year, we continue to like the long-term outlooks for the companies we own.

Allergan was our largest detractor from performance during the year. During the period, the company's \$160 billion merger with Pfizer was called off after the U.S. Treasury Department issued last-minute constraints on

so-called tax inversions, which diminished the viability of the transaction. Despite this setback, we continue to favor Allergan as a standalone enterprise with solid growth prospects, a high-quality pipeline, and a management team that has acted in the interests of shareholders. Recent drug launches with particular promise include irritable bowel syndrome therapy Viberzi, and schizophrenia drug Vraylar, each of which could become a \$500 million to \$1 billion asset over time.

Norwegian Cruise Line was another detractor. We exited our position in the cruise line company due to poor execution by management during a period of time in which geopolitical factors impacted demand for their business.

athenahealth also detracted. Concerns about the company's growth in 2017 weighed on the stock in the fourth quarter, as did uncertainty about the Trump administration's commitment to incentivizing health care companies to adopt better health care technology infrastructure. News that the company's COO was leaving also negatively affected the stock. We view these issues as transitory. Late in the period, the company issued new guidance for 2017 that was more positive. athenahealth's cloud-based software services for electronic health records, revenue cycle management and patient care coordination have the potential to remove inefficiency from the health care system and the business rationale for adopting these services remains compelling, even if some of the tax incentives for health care companies to adopt new technology go away. We also think the management team has a deep bench and are not concerned about the chief operating officer's departure.

While the stocks mentioned above detracted from performance, we were pleased by the results of many other companies we hold. Microsoft was one of our largest contributors. We continue to like the way the CEO is improving the company. The decision to move the

## **Janus Aspen Janus Portfolio (unaudited)**

Microsoft Office suite to a cloud-based, subscription model should create a recurring revenue stream for the company. We also believe Microsoft's Azure platform, which is the second-largest cloud provider of technology infrastructure, positions the company for growth as businesses seek more cost-effective, cloud-based IT solutions. The stock has been up as the market has come to appreciate how management has transformed the legacy software company.

Comcast was another contributor. A strong advertising environment and better- than-expected subscriber growth helped lift the broadcasting and cable TV company's stock early in the year. We've trimmed our position size in the portfolio due to some concerns about the increasing competitive intensity in the cable distribution industry. However, there are still elements we like about the company. We believe its strong broadband capabilities and leading product innovation leave it more insulated from the risk of substitute video services than most other pay television providers. We also like the way the management team has executed in a competitive environment for cable distributors, as investments in better products and improved customer service are resulting in market share gains for the company.

Finally, Amazon was another contributor. Earnings grew at a heady clip for Amazon during the year, and we believe that earnings growth is sustainable because the company has entrenched itself as the go-to online shopping platform. Amazon has already rewritten the rules for retail shopping, yet it continues to build on its tremendous scale and distribution advantage – the company now has a distribution center located within 20 miles of almost half the U.S. population – to offer faster delivery of retail goods at cheaper prices. The company's cloud services platform, Amazon Web Services, is also offering a disruptive pricing model for businesses seeking IT functions in the cloud.

We continue to be excited about the long-term growth potential of the holdings in our portfolio.

### **DERIVATIVES**

Please see the Derivative Instruments section in the "Notes to Financial Statements" for a discussion of derivatives used by the Portfolio.

Thank you for your investment in Janus Aspen Janus Portfolio.

**Janus Aspen Janus Portfolio (unaudited)**  
**Portfolio At A Glance**  
**December 31, 2016**

**5 Top Performers - Holdings**

	<b>Contribution</b>		<b>Contribution</b>
Microsoft Corp	0.81%	Allergan plc	-0.88%
Comcast Corp	0.41%	Norwegian Cruise Line Holdings Ltd	0.59%
Amazon.com Inc	0.39%	athenahealth Inc	-0.54%
Dunkin' Brands Group Inc	0.33%	Endo International PLC	-0.48%
Facebook Inc	0.32%	Kroger Co	-0.33%

**5 Bottom Performers - Holdings**

**5 Top Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>Russell 1000 Growth Index Weighting</b>
Real Estate	0.13%	1.07%	0.91%
Utilities	0.07%	0.23%	0.05%
Materials	-0.13%	1.25%	3.56%
Other**	-0.14%	2.77%	0.00%
Telecommunication Services	-0.14%	0.74%	1.75%

**5 Bottom Performers - Sectors\***

	<b>Portfolio Contribution</b>	<b>Portfolio Weighting (Average % of Equity)</b>	<b>Russell 1000 Growth Index Weighting</b>
Information Technology	-1.55%	34.02%	29.48%
Health Care	-0.89%	16.21%	16.47%
Industrials	-0.86%	10.05%	10.79%
Consumer Discretionary	-0.82%	20.51%	20.97%
Consumer Staples	-0.79%	7.53%	10.77%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

\* Based on sector classification according to the Global Industry Classification Standard ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

\*\* Not a GICS classified sector.



# Janus Aspen Janus Portfolio (unaudited)

## Portfolio At A Glance

### December 31, 2016

#### 5 Largest Equity Holdings - (% of Net Assets)

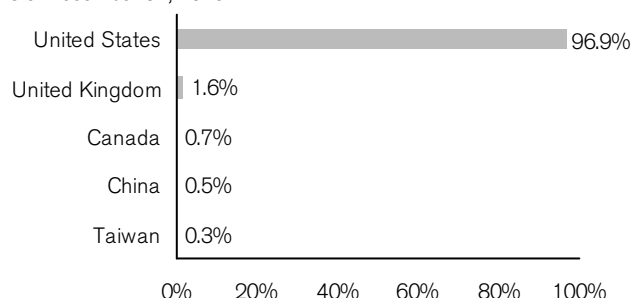
Alphabet Inc - Class C	
Internet Software & Services	6.1%
Microsoft Corp	
Software	5.5%
Amazon.com Inc	
Internet & Direct Marketing Retail	3.3%
salesforce.com Inc	
Software	2.7%
Apple Inc	
Technology Hardware, Storage & Peripherals	2.4%
	20.0%

#### Asset Allocation - (% of Net Assets)

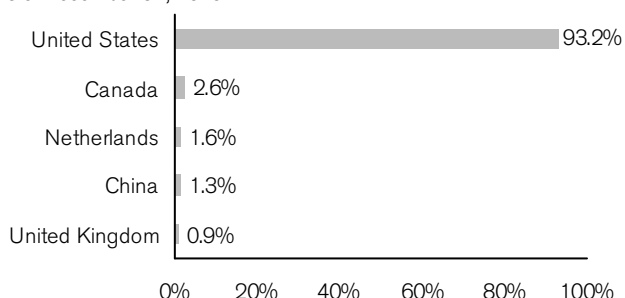
Common Stocks	98.5%
Investment Companies	1.2%
OTC Purchased Options – Calls	0.0%
Other	0.3%
	100.0%

#### Top Country Allocations - Long Positions - (% of Investment Securities)

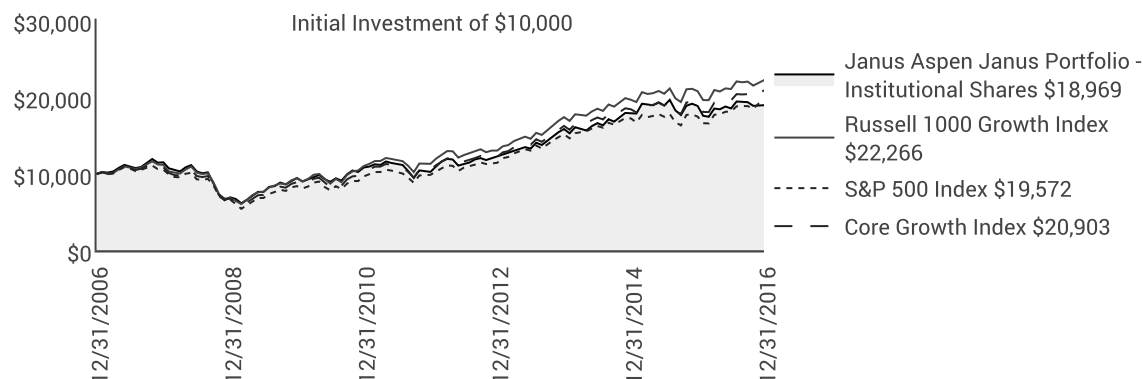
As of December 31, 2016



As of December 31, 2015



# Janus Aspen Janus Portfolio (unaudited) Performance



Average Annual Total Return - for the periods ended December 31, 2016					Expense Ratios - per the May 1, 2016 prospectuses
	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Institutional Shares	0.50%	13.08%	6.61%	7.71%	0.76%
Service Shares	0.27%	12.80%	6.35%	7.42%	1.02%
Russell 1000 Growth Index	7.08%	14.50%	8.33%	8.60%	
S&P 500 Index	11.96%	14.66%	6.95%	9.13%	
Core Growth Index	9.50%	14.59%	7.65%	8.90%	
Morningstar Quartile - Institutional Shares	3rd	2nd	3rd	3rd	
Morningstar Ranking - based on total returns for Large Growth Funds	1,133/1,497	685/1,371	727/1,170	281/474	

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit [janus.com/variable-insurance](http://janus.com/variable-insurance).

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, portfolio holdings and other details.

Returns shown do not represent actual returns since they do not include insurance charges. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

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See important disclosures on the next page.

## **Janus Aspen Janus Portfolio (unaudited)**

### **Performance**

There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective January 12, 2016, Barney Wilson and Jean Barnard are Co-Portfolio Managers of the Portfolio.

\*The Portfolio's inception date – September 13, 1993

# Janus Aspen Janus Portfolio (unaudited)

## Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of \$1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

### Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

### Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio'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 Portfolio 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. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit [www.finra.org/fundalyzer](http://www.finra.org/fundalyzer).

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as any charges at the separate account level or contract level. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples 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 transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Net Annualized Expense Ratio (7/1/16 - 12/31/16)
Institutional Shares	\$1,000.00	\$1,022.90	\$3.00	\$1,000.00	\$1,022.17	\$3.00	0.59%
Service Shares	\$1,000.00	\$1,011.70	\$4.25	\$1,000.00	\$1,020.91	\$4.27	0.84%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

# Janus Aspen Janus Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Contract Amounts	Value
Common Stocks – 98.5%		
Aerospace & Defense – 3.6%		
General Dynamics Corp	51,547	\$8,900,105
Northrop Grumman Corp	25,827	6,006,844
TransDigm Group Inc	9,636	2,398,979
		17,305,928
Auto Components – 0.7%		
Delphi Automotive PLC	48,048	3,236,033
Beverages – 1.6%		
Coca-Cola Co	180,748	7,493,812
Biotechnology – 3.6%		
Amgen Inc	50,055	7,318,541
Celgene Corp*	39,499	4,572,009
Regeneron Pharmaceuticals Inc*	6,769	2,484,832
Shire PLC (ADR)	14,518	2,473,577
		16,848,959
Building Products – 0.5%		
AO Smith Corp	46,033	2,179,662
Capital Markets – 1.5%		
Intercontinental Exchange Inc	121,870	6,875,905
Consumer Finance – 0.4%		
Synchrony Financial	58,773	2,131,697
Containers & Packaging – 1.4%		
Ball Corp	89,062	6,685,884
Diversified Consumer Services – 0.5%		
ServiceMaster Global Holdings Inc*	62,905	2,369,631
Electrical Equipment – 0.6%		
Sensata Technologies Holding NV*	70,528	2,747,066
Electronic Equipment, Instruments & Components – 2.7%		
Amphenol Corp	82,807	5,564,630
Flex Ltd*	498,392	7,161,893
		12,726,523
Equity Real Estate Investment Trusts (REITs) – 2.0%		
American Tower Corp	76,574	8,092,340
Colony Starwood Homes	44,434	1,280,143
		9,372,483
Food & Staples Retailing – 1.4%		
Costco Wholesale Corp	42,534	6,810,119
Health Care Equipment & Supplies – 3.6%		
Boston Scientific Corp*	333,966	7,223,685
STERIS PLC	50,813	3,424,288
Teleflex Inc	41,231	6,644,376
		17,292,349
Health Care Providers & Services – 0.2%		
Aetna Inc	8,701	1,079,011
Health Care Technology – 1.5%		
athenahealth Inc*	68,846	7,240,534
Hotels, Restaurants & Leisure – 6.2%		
Aramark	179,050	6,395,666
Dunkin' Brands Group Inc	140,564	7,371,176
McDonald's Corp	64,395	7,838,159
Starbucks Corp	138,229	7,674,474
		29,279,475
Household Products – 2.0%		
Colgate-Palmolive Co	37,365	2,445,166
Kimberly-Clark Corp	61,016	6,963,146
		9,408,312
Industrial Conglomerates – 1.9%		
General Electric Co	147,461	4,659,768
Roper Technologies Inc	23,184	4,244,527
		8,904,295

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Contract Amounts	Value
Common Stocks – (continued)		
Information Technology Services – 4.7%		
Broadridge Financial Solutions Inc	38,533	\$2,554,738
Fidelity National Information Services Inc	89,470	6,767,511
Mastercard Inc	54,465	5,623,511
Visa Inc	94,032	7,336,377
		22,282,137
Internet & Direct Marketing Retail – 3.9%		
Amazon.com Inc*	20,980	15,732,273
Netflix Inc*	20,872	2,583,954
		18,316,227
Internet Software & Services – 10.0%		
Alibaba Group Holding Ltd (ADR)*	24,416	2,143,969
Alphabet Inc - Class A*	3,124	2,475,614
Alphabet Inc - Class C* <sup>†</sup>	37,251	28,751,067
CoStar Group Inc*	18,215	3,433,345
Facebook Inc	91,636	10,542,722
		47,346,717
Life Sciences Tools & Services – 2.9%		
Quintiles IMS Holdings Inc*	98,671	7,503,929
Thermo Fisher Scientific Inc	44,277	6,247,485
		13,751,414
Media – 1.8%		
Comcast Corp	65,532	4,524,985
Liberty Global PLC*	129,905	3,858,178
		8,383,163
Multiline Retail – 1.8%		
Dollar General Corp	115,615	8,563,603
Oil, Gas & Consumable Fuels – 0.9%		
Anadarko Petroleum Corp	24,482	1,707,130
Antero Resources Corp*	103,155	2,439,616
		4,146,746
Personal Products – 0.6%		
Estee Lauder Cos Inc	40,223	3,076,657
Pharmaceuticals – 5.9%		
Allergan plc	29,104	6,112,131
Bristol-Myers Squibb Co	169,571	9,909,729
Eli Lilly & Co	93,164	6,852,212
Jazz Pharmaceuticals PLC*	18,574	2,025,123
Zoetis Inc	55,596	2,976,054
		27,875,249
Professional Services – 4.5%		
Equifax Inc	37,588	4,444,029
IHS Markit Ltd*	138,096	4,889,979
Nielsen Holdings PLC	108,750	4,562,062
Verisk Analytics Inc*	93,847	7,617,561
		21,513,631
Real Estate Management & Development – 1.2%		
CBRE Group Inc*	170,163	5,358,433
Colony American Homes III <sup>§</sup>	442,372	456,289
		5,814,722
Road & Rail – 0.7%		
Canadian Pacific Railway Ltd	24,529	3,502,005
Semiconductor & Semiconductor Equipment – 2.0%		
Microchip Technology Inc	48,352	3,101,781
Taiwan Semiconductor Manufacturing Co Ltd	288,942	1,618,287
Texas Instruments Inc	32,970	2,405,821
Xilinx Inc	40,416	2,439,914
		9,565,803
Software – 14.6%		
Activision Blizzard Inc	88,933	3,211,371

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Schedule of Investments

### December 31, 2016

	Shares or Contract Amounts	Value
Common Stocks – (continued)		
Software – (continued)		
Adobe Systems Inc*	111,629	\$11,492,205
Cadence Design Systems Inc*	145,207	3,662,120
Microsoft Corp	416,341	25,871,430
salesforce.com Inc*	185,332	12,687,829
SS&C Technologies Holdings Inc	183,453	5,246,756
Tyler Technologies Inc*	35,108	5,012,369
Ultimate Software Group Inc*	12,119	2,209,900
		69,393,980
Specialty Retail – 0.8%		
AutoZone Inc*	4,532	3,579,328
Technology Hardware, Storage & Peripherals – 2.4%		
Apple Inc <sup>1</sup>	99,416	11,514,361
Textiles, Apparel & Luxury Goods – 1.0%		
NIKE Inc	95,341	4,846,183
Tobacco – 2.2%		
Altria Group Inc	153,243	10,362,292
Wireless Telecommunication Services – 0.7%		
T-Mobile US Inc*	60,417	3,474,582
<b>Total Common Stocks (cost \$397,029,353)</b>		<b>467,296,478</b>
Investment Companies – 1.2%		
Money Markets – 1.2%		
Janus Cash Liquidity Fund LLC, 0.4708% <sup>***</sup> (cost \$5,920,000)	5,920,000	5,920,000
OTC Purchased Options – Calls – 0%		
Counterparty/Reference Asset		
JPMorgan Chase & Co.:		
Eli Lilly & Co, exercise price \$80.00, expires January 2017*	152	1,004
Morgan Stanley & Co.:		
Eli Lilly & Co, exercise price \$80.00, expires January 2017*	155	1,024
<b>Total OTC Purchased Options – Calls (premiums paid \$145,374)</b>		<b>2,028</b>
<b>Total Investments (total cost \$403,094,727) – 99.7%</b>		<b>473,218,506</b>
Cash, Receivables and Other Assets, net of Liabilities – 0.3%		1,198,003
<b>Net Assets – 100%</b>		<b>\$474,416,509</b>

#### Summary of Investments by Country - (Long Positions) (unaudited)

Country	Value	% of Investment Securities
United States	\$458,590,689	96.9 %
United Kingdom	7,363,556	1.6
Canada	3,502,005	0.7
China	2,143,969	0.5
Taiwan	1,618,287	0.3
<b>Total</b>	<b>\$473,218,506</b>	<b>100.0 %</b>

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Notes to Schedule of Investments and Other Information

Russell 1000 <sup>®</sup> Growth Index	Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Core Growth Index	An internally-calculated, hypothetical combination of total returns from the Russell 1000 <sup>®</sup> Growth Index (50%) and the S&P 500 <sup>®</sup> Index (50%).
S&P 500 <sup>®</sup> Index	Measures broad U.S. equity performance.
ADR	American Depositary Receipt
LLC	Limited Liability Company
OTC	Over-the-Counter
PLC	Public Limited Company
*	Non-income producing security.
†	A portion of this security has been segregated to cover margin or segregation requirements on open futures contracts, forward currency contracts, options contracts, short sales, swap agreements, and/or securities with extended settlement dates, the value of which, as of December 31, 2016, is \$23,157,420.
°°	Rate shown is the 7-day yield as of December 31, 2016.
§	The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	<i>Share Balance at 12/31/15</i>	<i>Purchases</i>	<i>Sales</i>	<i>Share Balance at 12/31/16</i>	<i>Realized Gain/(Loss)</i>	<i>Dividend Income</i>	<i>Value at 12/31/16</i>
Janus Cash Liquidity Fund LLC	17,559,010	98,053,033	(109,692,043)	5,920,000	\$—	\$52,238	\$5,920,000

### § Schedule of Restricted and Illiquid Securities (as of December 31, 2016)

	<i>Acquisition Date</i>	<i>Cost</i>	<i>Value</i>	<i>Value as a % of Net Assets</i>
Colony American Homes III	1/30/13	\$ 555,244	\$ 456,289	0.1%

The Portfolio has registration rights for certain restricted securities held as of December 31, 2016. The issuer incurs all registration costs.



# Janus Aspen Janus Portfolio

## Notes to Schedule of Investments and Other Information

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2016. See Notes to Financial Statements for more information.

### Valuation Inputs Summary

	<i>Level 1 - Quotes Prices</i>	<i>Level 2 - Other Significant Observable Inputs</i>	<i>Level 3 - Significant Unobservable Inputs</i>
<b>Assets</b>			
<b>Investments in Securities</b>			
<i>Common Stocks</i>			
Real Estate Management & Development	\$ 5,358,433	\$ -	\$ 456,289
Semiconductor & Semiconductor Equipment	7,947,516	1,618,287	-
All Other	451,915,953	-	-
<i>Investment Companies</i>	-	5,920,000	-
<i>OTC Purchased Options – Calls</i>	-	2,028	-
<b>Total Assets</b>	<b>\$ 465,221,902</b>	<b>\$ 7,540,315</b>	<b>\$ 456,289</b>

# Janus Aspen Janus Portfolio

## Statement of Assets and Liabilities

### December 31, 2016

<b>Assets:</b>		
Investments, at cost	\$	403,094,727
Unaffiliated investments, at value		467,298,506
Affiliated investments, at value		5,920,000
Cash		21,387
Non-interested Trustees' deferred compensation		8,790
<b>Receivables:</b>		
Portfolio shares sold		1,101,241
Investments sold		441,470
Dividends		348,697
Foreign tax reclaims		1,931
Dividends from affiliates		627
Other assets		6,527
<b>Total Assets</b>		<b>475,149,176</b>
<b>Liabilities:</b>		
<b>Payables:</b>		
Portfolio shares repurchased		305,846
Advisory fees		206,205
Investments purchased		111,907
12b-1 Distribution and shareholder servicing fees		32,789
Professional fees		23,383
Transfer agent fees and expenses		22,948
Non-interested Trustees' deferred compensation fees		8,790
Portfolio administration fees		4,099
Non-interested Trustees' fees and expenses		4,065
Custodian fees		1,790
Accrued expenses and other payables		10,845
<b>Total Liabilities</b>		<b>732,667</b>
<b>Net Assets</b>	<b>\$</b>	<b>474,416,509</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid-in surplus)	\$	422,827,269
Undistributed net investment income/(loss)		924,457
Undistributed net realized gain/(loss) from investments and foreign currency transactions		(19,460,863)
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		70,125,646
<b>Total Net Assets</b>	<b>\$</b>	<b>474,416,509</b>
<b>Net Assets - Institutional Shares</b>	<b>\$</b>	<b>330,516,297</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		11,423,023
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>28.93</b>
<b>Net Assets - Service Shares</b>	<b>\$</b>	<b>143,900,212</b>
Shares Outstanding, \$0.01 Par Value (unlimited shares authorized)		5,083,295
<b>Net Asset Value Per Share</b>	<b>\$</b>	<b>28.31</b>

See Notes to Financial Statements.

**Janus Aspen Janus Portfolio**  
**Statement of Operations**  
**For the year ended December 31, 2016**

Investment Income:		
Dividends	\$	5,483,988
Dividends from affiliates		52,238
Other income		12
Foreign tax withheld		(33,194)
Total Investment Income		5,503,044
Expenses:		
Advisory fees		2,694,811
12b-1 Distribution and shareholder servicing fees:		
Service Shares		378,037
Transfer agent administrative fees and expenses:		
Institutional Shares		119,092
Service Shares		51,186
Other transfer agent fees and expenses:		
Institutional Shares		6,610
Service Shares		1,678
Professional fees		48,995
Portfolio administration fees		44,774
Shareholder reports expense		23,899
Registration fees		20,241
Non-interested Trustees' fees and expenses		15,988
Custodian fees		14,834
Other expenses		96,240
Total Expenses		3,516,385
Net Investment Income/(Loss)		1,986,659
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		28,581,471
Total Net Realized Gain/(Loss) on Investments		28,581,471
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		(28,910,524)
Total Change in Unrealized Net Appreciation/Depreciation		(28,910,524)
Net Increase/(Decrease) in Net Assets Resulting from Operations	\$	1,657,606

See Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Statements of Changes in Net Assets

	Year ended December 31, 2016		Year ended December 31, 2015	
Operations:				
Net investment income/(loss)	\$	1,986,659	\$	2,423,025
Net realized gain/(loss) on investments		28,581,471		54,681,930
Change in unrealized net appreciation/depreciation		(28,910,524)		(25,084,006)
Net Increase/(Decrease) in Net Assets Resulting from Operations		1,657,606		32,020,949
Dividends and Distributions to Shareholders:				
Dividends from Net Investment Income				
Institutional Shares		(1,882,866)		(2,514,668)
Service Shares		(579,147)		(760,540)
Total Dividends from Net Investment Income		(2,462,013)		(3,275,208)
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(21,802,599)		(72,391,999)
Service Shares		(9,582,277)		(30,930,074)
Total Distributions from Net Realized Gain from Investment Transactions		(31,384,876)		(103,322,073)
Net Decrease from Dividends and Distributions to Shareholders		(33,846,889)		(106,597,281)
Capital Share Transactions:				
Institutional Shares		(27,969,269)		(236,536)
Service Shares		(9,235,600)		24,363,244
Net Increase/(Decrease) from Capital Share Transactions		(37,204,869)		24,126,708
Net Increase/(Decrease) in Net Assets		(69,394,152)		(50,449,624)
Net Assets:				
Beginning of period		543,810,661		594,260,285
End of period	\$	474,416,509	\$	543,810,661
Undistributed Net Investment Income/(Loss)	\$	924,457	\$	1,040,905

See Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Financial Highlights

### Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$30.84	\$35.76	\$34.20	\$26.45	\$22.84
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.14 <sup>(1)</sup>	0.17 <sup>(1)</sup>	0.15 <sup>(1)</sup>	0.16	0.27
Net realized and unrealized gain/(loss)	(0.03)	1.92	4.08	7.83	3.92
Total from Investment Operations	0.11	2.09	4.23	7.99	4.19
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.16)	(0.23)	(0.13)	(0.24)	(0.14)
Distributions (from capital gains)	(1.86)	(6.78)	(2.54)	—	(0.44)
Total Dividends and Distributions	(2.02)	(7.01)	(2.67)	(0.24)	(0.58)
Net Asset Value, End of Period	\$28.93	\$30.84	\$35.76	\$34.20	\$26.45
Total Return*	0.50%	5.35%	12.99%	30.34%	18.59%
Net Assets, End of Period (in thousands)	\$330,516	\$380,663	\$431,838	\$433,603	\$374,860
Average Net Assets for the Period (in thousands)	\$353,738	\$413,393	\$420,607	\$399,973	\$377,786
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.62%	0.71%	0.55%	0.54%	0.53%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.62%	0.71%	0.55%	0.54%	0.53%
Ratio of Net Investment Income/(Loss)	0.47%	0.49%	0.44%	0.65%	1.08%
Portfolio Turnover Rate	58%	54%	60%	50%	38%

### Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	\$30.24	\$35.21	\$33.74	\$26.13	\$22.60
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.06 <sup>(1)</sup>	0.08 <sup>(1)</sup>	0.06 <sup>(1)</sup>	0.02	0.17
Net realized and unrealized gain/(loss)	(0.02)	1.89	4.03	7.79	3.91
Total from Investment Operations	0.04	1.97	4.09	7.81	4.08
Less Dividends and Distributions:					
Dividends (from net investment income)	(0.11)	(0.16)	(0.08)	(0.20)	(0.11)
Distributions (from capital gains)	(1.86)	(6.78)	(2.54)	—	(0.44)
Total Dividends and Distributions	(1.97)	(6.94)	(2.62)	(0.20)	(0.55)
Net Asset Value, End of Period	\$28.31	\$30.24	\$35.21	\$33.74	\$26.13
Total Return*	0.27%	5.08%	12.73%	29.99%	18.28%
Net Assets, End of Period (in thousands)	\$143,900	\$163,148	\$162,422	\$170,880	\$177,638
Average Net Assets for the Period (in thousands)	\$151,772	\$166,602	\$163,094	\$174,538	\$184,029
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.87%	0.97%	0.80%	0.79%	0.78%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.87%	0.97%	0.80%	0.79%	0.78%
Ratio of Net Investment Income/(Loss)	0.22%	0.25%	0.19%	0.41%	0.82%
Portfolio Turnover Rate	58%	54%	60%	50%	38%

\* Total return not annualized for periods of less than one full year.

\*\* Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

See Notes to Financial Statements.

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Janus Aspen Janus Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio seeks long-term growth of capital. The Portfolio is classified as diversified, as defined in the 1940 Act.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

#### Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

#### Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

market participants would use in pricing an asset or liability and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for fair valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2016 to fair value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

The Portfolio did not hold a significant amount of Level 3 securities as of December 31, 2016.

The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year. The following describes the amounts of transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year.

Financial assets of \$2,377,202 were transferred out of Level 1 to Level 2 since certain foreign equity prices were applied a fair valuation adjustment factor at the end of the prior fiscal year and no factor was applied at the end of the current period.

### Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Portfolio is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

### Expenses

The Portfolio bears expenses incurred specifically on its behalf. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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.

### Indemnifications

In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

### Foreign Currency Translations

The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

### Dividends and Distributions

The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

### Federal Income Taxes

The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## 2. Derivative Instruments

The Portfolio may invest in various types of derivatives, which may at times result in significant derivative exposure. A derivative is a financial instrument whose performance is derived from the performance of another asset. The Portfolio may invest in derivative instruments including, but not limited to: futures contracts, put options, call options, options on future contracts, options on foreign currencies, options on recovery locks, options on security and commodity indices, swaps, forward contracts, structured investments, and other equity-linked derivatives. Each derivative instrument that was held by the Portfolio during the year ended December 31, 2016 is discussed in further detail below. A summary of derivative activity by the Portfolio is reflected in the tables at the end of this section.

The Portfolio may use derivative instruments for hedging purposes (to offset risks associated with an investment, currency exposure, or market conditions), to adjust currency exposure relative to a benchmark index, or for speculative purposes (to earn income and seek to enhance returns). When the Portfolio invests in a derivative for speculative purposes, the Portfolio will be fully exposed to the risks of loss of that derivative, which may sometimes be greater than



# Janus Aspen Janus Portfolio

## Notes to Financial Statements

the derivative's cost. The Portfolio may not use any derivative to gain exposure to an asset or class of assets that it would be prohibited by its investment restrictions from purchasing directly. The Portfolio's ability to use derivative instruments may also be limited by tax considerations.

Investments in derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Investments in derivatives may not directly correlate with the price movements of the underlying instrument. As a result, the use of derivatives may expose the Portfolio to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. The use of derivatives may result in larger losses or smaller gains than otherwise would be the case. Derivatives can be volatile and may involve significant risks.

In pursuit of its investment objective, the Portfolio may seek to use derivatives to increase or decrease exposure to the following market risk factors:

- **Commodity Risk** – the risk related to the change in value of commodities or commodity-linked investments due to changes in the overall market movements, volatility of the underlying benchmark, changes in interest rates, or other factors affecting a particular industry of commodity such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.
- **Counterparty Risk** – the risk that the counterparty (the party on the other side of the transaction) on a derivative transaction will be unable to honor its financial obligation to the Portfolio.
- **Credit Risk** – the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.
- **Currency Risk** – the risk that changes in the exchange rate between currencies will adversely affect the value (in U.S. dollar terms) of an investment.
- **Equity Risk** – the risk related to the change in value of equity securities as they relate to increases or decreases in the general market.
- **Index Risk** – if the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Portfolio could receive lower interest payments or experience a reduction in the value of the derivative to below what the Portfolio paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.
- **Interest Rate Risk** – the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause the Portfolio's NAV to likewise decrease.
- **Leverage Risk** – the risk associated with certain types of leveraged investments or trading strategies pursuant to which relatively small market movements may result in large changes in the value of an investment. The Portfolio creates leverage by investing in instruments, including derivatives, where the investment loss can exceed the original amount invested. Certain investments or trading strategies, such as short sales, that involve leverage can result in losses that greatly exceed the amount originally invested.
- **Liquidity Risk** – the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

Derivatives may generally be traded OTC or on an exchange. Derivatives traded OTC are agreements that are individually negotiated between parties and can be tailored to meet a purchaser's needs. OTC derivatives are not guaranteed by a clearing agency and may be subject to increased credit risk.

In an effort to mitigate credit risk associated with derivatives traded OTC, the Portfolio may enter into collateral agreements with certain counterparties whereby, subject to certain minimum exposure requirements, the Portfolio may require the counterparty to post collateral if the Portfolio has a net aggregate unrealized gain on all OTC derivative contracts with a particular counterparty. There is no guarantee that counterparty exposure is reduced and these arrangements are dependent on Janus Capital's ability to establish and maintain appropriate systems and trading.

### Options Contracts

An options contract provides the purchaser with the right, but not the obligation, to buy (call option) or sell (put option) a financial instrument at an agreed upon price on or before a specified date. The purchaser pays a premium to the seller

## Janus Aspen Janus Portfolio

### Notes to Financial Statements

for this right. The seller has the corresponding obligation to sell or buy a financial instrument if the purchaser (owner) "exercises" the option. When an option is exercised, the proceeds on sales for a written call option, the purchase cost for a written put option, or the cost of the security for a purchased put or call option are adjusted by the amount of premium received or paid. Upon expiration, or closing of the option transaction, a realized gain or loss is reported on the Statement of Operations (if applicable). The difference between the premium paid/received and the market value of the option is recorded as unrealized appreciation or depreciation. The net change in unrealized appreciation or depreciation is reported on the Statement of Operations (if applicable). Option contracts are typically valued using an approved vendor's option valuation model. To the extent reliable market quotations are available, option contracts are valued using market quotations. In cases when an approved vendor cannot provide coverage for an option and there is no reliable market quotation, a broker quotation or an internal valuation using the Black-Scholes model, the Cox-Rubenstein Binomial Option Pricing Model, or other appropriate option pricing model is used. Certain options contracts are marked-to-market daily, and the daily variation margin is recorded as a receivable or payable on the Statement of Assets and Liabilities as "Variation margin receivable" or "Variation margin payable" (if applicable).

The Portfolio may use options contracts to hedge against changes in interest rates, the values of equities, or foreign currencies. The Portfolio generally invests in options to hedge against adverse movements in the value of portfolio holdings. The use of such instruments may involve certain additional risks as a result of unanticipated movements in the market. A lack of correlation between the value of an instrument underlying an option and the asset being hedged, or unexpected adverse price movements, could render the Portfolio's hedging strategy unsuccessful. In addition, there can be no assurance that a liquid secondary market will exist for any option purchased or sold. The Portfolio may be subject to counterparty risk, interest rate risk, liquidity risk, equity risk, commodity risk, and currency risk in the normal course of pursuing its investment objective through its investments in options contracts.

Options traded on an exchange are regulated and the terms of the options are standardized. Options traded OTC expose the Portfolio to counterparty risk in the event that the counterparty does not perform. This risk is mitigated by having a netting arrangement between the Portfolio and the counterparty and by having the counterparty post collateral to cover the Portfolio's exposure to the counterparty. The Portfolio may purchase put options to hedge against a decline in the value of its portfolio. By using put options in this way, the Portfolio will reduce any profit it might otherwise have realized in the underlying security by the amount of the premium paid for the put option and by transaction costs. The Portfolio may purchase call options to hedge against an increase in the price of securities that it may buy in the future. The premium paid for the call option plus any transaction costs will reduce the benefit, if any, realized by the Portfolio upon exercise of the option, and, unless the price of the underlying security rises sufficiently, the option may expire worthless to the Portfolio. The risk in buying options is that the Portfolio pays a premium whether or not the options are exercised. Options purchased are reported in the Schedule of Investments (if applicable).

During the year, the Portfolio purchased call options on various equity indices for the purpose of increasing exposure to broad equity risk.

During the year, the Portfolio purchased put options on various equity securities and ETFs for the purpose of decreasing exposure to individual equity risk.

During the year ended December 31, 2016, the average ending monthly market value amounts on purchased call and put options are \$415 and \$35,822, respectively.

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## Notes to Financial Statements

The following table, grouped by derivative type, provides information about the fair value and location of derivatives within the Statement of Assets and Liabilities as of December 31, 2016.

### Fair Value of Derivative Instruments (not accounted for as hedging instruments) as of December 31, 2016

	Equity Contracts
<i>Asset Derivatives:</i>	
Unaffiliated investments, at value	\$ 2,028 <sup>(a)</sup>
(a) Amounts relate to purchased options.	

The following table provides information about the effect of derivatives and hedging activities on the Portfolio's Statement of Operations for the year ended December 31, 2016.

### The effect of Derivative Instruments (not accounted for as hedging instruments) on the Statement of Operations for the year ended December 31, 2016

	Equity Contracts
<i>Amount of Realized Gain/(Loss) Recognized on Derivatives</i>	
<i>Derivative</i>	
Investments and foreign currency transactions	\$(742,076) <sup>(a)</sup>

	Equity Contracts
<i>Amount of Change in Unrealized Appreciation/Depreciation Recognized on Derivatives</i>	
<i>Derivative</i>	
Investments, foreign currency translations and non-interested Trustees' deferred compensation	\$(143,346) <sup>(a)</sup>
(a) Amounts relate to purchased options.	

Please see the "Net Realized Gain/(Loss) on Investments" and "Change in Unrealized Net Appreciation/Depreciation" sections of the Portfolio's Statement of Operations.

### 3. Other Investments and Strategies

#### Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks, took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient could each negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expanded federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

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### Notes to Financial Statements

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

#### Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value. See the "Offsetting Assets and Liabilities" section of this Note for further details.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

#### Offsetting Assets and Liabilities

The Portfolio presents gross and net information about transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement with a designated counterparty, regardless of whether the transactions are actually offset in the Statement of Assets and Liabilities.

In order to better define its contractual rights and to secure rights that will help the Portfolio mitigate its counterparty risk, the Portfolio has entered into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with its derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between the Portfolio and a counterparty that governs OTC derivatives and forward foreign currency exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, in the event of a default and/or termination event, the Portfolio may offset with each counterparty certain derivative financial instruments' payables

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## Notes to Financial Statements

and/or receivables with collateral held and/or posted and create one single net payment. For financial reporting purposes, the Portfolio does not offset certain derivative financial instruments' payables and receivables and related collateral on the Statement of Assets and Liabilities.

The following table presents gross amounts of recognized assets and/or liabilities and the net amounts after deducting collateral that has been pledged by counterparties or has been pledged to counterparties (if applicable). For corresponding information grouped by type of instrument, see either the "Fair Value of Derivative Instruments as of December 31, 2016" table located in Note 2 of these Notes to Financial Statements and/or the Portfolio's Schedule of Investments.

### Offsetting of Financial Assets and Derivative Assets

<i>Counterparty</i>		<i>Gross Amounts of Recognized Assets</i>		<i>Offsetting Asset or Liability<sup>(a)</sup></i>		<i>Collateral Pledged<sup>(b)</sup></i>		<i>Net Amount</i>
JPMorgan Chase & Co.	\$	1,004	\$	—	\$	—	\$	1,004
Morgan Stanley & Co.		1,024		—		—		1,024
Total	\$	2,028	\$	—	\$	—	\$	2,028

(a) Represents the amount of assets or liabilities that could be offset with the same counterparty under master netting or similar agreements that management elects not to offset on the Statement of Assets and Liabilities.

(b) Collateral pledged is limited to the net outstanding amount due to/from an individual counterparty. The actual collateral amounts pledged may exceed these amounts and may fluctuate in value.

The Portfolio may require the counterparty to pledge securities as collateral daily (based on the daily valuation of the financial asset) if the Portfolio has a net aggregate unrealized gain on OTC derivative contracts with a particular counterparty. The Portfolio may deposit cash as collateral with the counterparty and/or custodian daily (based on the daily valuation of the financial asset) if the Portfolio has a net aggregate unrealized loss on OTC derivative contracts with a particular counterparty. The collateral amounts are subject to minimum exposure requirements and initial margin requirements. Collateral amounts are monitored and subsequently adjusted up or down as valuations fluctuate by at least the minimum exposure requirement. Collateral may reduce the risk of loss.

### Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

### Restricted Security Transactions

Restricted securities held by the Portfolio may not be sold except in exempt transactions or in a public offering registered under the Securities Act of 1933, as amended. The risk of investing in such securities is generally greater than the risk of investing in the securities of widely held, publicly traded companies. Lack of a secondary market and resale restrictions may result in the inability of the Portfolio to sell a security at a fair price and may substantially delay the sale of the security. In addition, these securities may exhibit greater price volatility than securities for which secondary markets exist.

### 4. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate) is 0.64%.

The investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the Core Growth Index.

The calculation of the performance adjustment applies as follows:

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### Notes to Financial Statements

Investment Advisory Fee = Base Fee Rate +/- Performance Adjustment

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period, which is generally the previous 36 months.

The Portfolio's prospectuses and statement(s) of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee Rate plus/minus any Performance Adjustment. For the year ended December 31, 2016, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.53%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the 1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC ("Janus Distributors"), a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or shareholder services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of \$56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account

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### Notes to Financial Statements

then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2016 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2016 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of \$201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

Pursuant to the provisions of the 1940 Act and related rules, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Funds"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Funds. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of \$1.00 per share and distributes income daily in a manner consistent with a registered product compliant with Rule 2a-7 under the 1940 Act. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2016 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2016, the Portfolio engaged in cross trades amounting to \$2,354,918 in purchases and \$1,992,654 in sales, resulting in a net realized loss of \$123,607. The net realized loss is included within the "Net Realized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

### 5. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation and derivatives. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

<i>Undistributed Ordinary Income</i>	<i>Undistributed Long-Term Gains</i>	<i>Accumulated Capital Losses</i>	<i>Loss Deferrals</i>		<i>Other Book to Tax Differences</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
			<i>Late-Year Ordinary Loss</i>	<i>Post-October Capital Loss</i>		
\$ 825,820	\$ 4,795,862	\$ (23,370,699)	\$ -	\$ -	\$ (6,924)	\$ 69,345,181

Accumulated capital losses noted below represent net capital loss carryovers, as of December 31, 2016, that may be available to offset future realized capital gains and thereby reduce future taxable gains distributions. Under the Regulated Investment Company Modernization Act of 2010, the Portfolio is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may more likely expire unused. Also, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. The following table shows these capital loss carryovers.

#### *Capital Loss Carryover Schedule*

*For the year ended December 31, 2016*

<i>No Expiration</i>				<i>Accumulated Capital Losses</i>
<i>December 31, 2017</i>	<i>Short-Term</i>	<i>Long-Term</i>		
\$ (23,370,699)	\$ -	\$ -	\$	\$ (23,370,699)

During the year ended December 31, 2016, capital loss carryovers of \$23,370,699 were utilized by the Portfolio.

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2016 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments are wash sale loss deferrals and investments in partnerships.

<i>Federal Tax Cost</i>	<i>Unrealized Appreciation</i>	<i>Unrealized (Depreciation)</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
\$ 403,873,325	\$81,330,323	\$(11,985,142)	\$ 69,345,181



# Janus Aspen Janus Portfolio

## Notes to Financial Statements

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

For the year ended December 31, 2016

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 2,462,013	\$ 31,384,876	\$ -	\$ -

For the year ended December 31, 2015

<i>Distributions</i>			
<i>From Ordinary Income</i>	<i>From Long-Term Capital Gains</i>	<i>Tax Return of Capital</i>	<i>Net Investment Loss</i>
\$ 3,275,208	\$ 103,322,073	\$ -	\$ -

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

<i>Increase/(Decrease) to Capital</i>	<i>Increase/(Decrease) to Undistributed Net Investment Income/Loss</i>	<i>Increase/(Decrease) to Undistributed Net Realized Gain/Loss</i>
\$ (87)	\$ 358,906	\$ (358,819)

## 6. Capital Share Transactions

	<i>Year ended December 31, 2016</i>		<i>Year ended December 31, 2015</i>	
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>
Institutional Shares:				
Shares sold	291,626	\$ 8,538,238	605,398	\$20,512,266
Reinvested dividends and distributions	834,649	23,685,465	2,365,348	74,906,667
Shares repurchased	(2,048,258)	(60,192,972)	(2,701,063)	(95,655,469)
Net Increase/(Decrease)	(921,983)	\$(27,969,269)	269,683	\$ (236,536)
Service Shares:				
Shares sold	497,999	\$ 14,331,748	682,757	\$23,169,461
Reinvested dividends and distributions	365,761	10,161,424	1,019,667	31,690,614
Shares repurchased	(1,176,387)	(33,728,772)	(919,451)	(30,496,831)
Net Increase/(Decrease)	(312,627)	\$ (9,235,600)	782,973	\$24,363,244

## 7. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>	<i>Purchases of Long- Term U.S. Government Obligations</i>	<i>Proceeds from Sales of Long-Term U.S. Government Obligations</i>
\$ 285,706,259	\$ 346,004,841	\$ -	\$ -

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

### 8. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

On December 8, 2016, the Board of Trustees of Janus Aspen Series approved changing the name, principal investment strategies, and portfolio management team of Janus Portfolio (collectively, the "Realignment"). Also on December 8, 2016, the Board of Trustees of Janus Investment Fund approved a merger of the Janus Fund into Janus Research Fund (the "Janus Fund Merger"), both series of Janus Investment Fund. Janus Portfolio is managed in a manner similar to Janus Fund. In order to streamline the Janus Capital product lineup and to more efficiently manage the portfolios, Janus Capital recommended, and the Board of Trustees approved, the Realignment subject to completion of the Janus Fund Merger and approval by Janus Portfolio shareholders of an amended and restated investment advisory agreement (the "Amended Advisory Agreement"). In connection with the Realignment, the Board of Trustees approved the Amended Advisory Agreement between Janus Capital and Janus Portfolio, which reflects a change to the benchmark index and performance hurdle used to calculate Janus Portfolio's performance-adjusted investment advisory fee, in order to align with Janus Research.

The Amended Advisory Agreement is subject to approval by shareholders of the Janus Portfolio. The Realignment is not subject to shareholder approval. Subject to the completion of the Janus Fund Merger and shareholder approval of the Amended Advisory Agreement, the Realignment would result in a name change, investment strategy changes, and portfolio manager changes.

# Janus Aspen Janus Portfolio

## Notes to Financial Statements

**Name Change:** The name of the Portfolio would be changed from “Janus Portfolio” to “Janus Research Portfolio.”

**Investment Strategy Changes:** The Portfolio would continue to focus on a portfolio of large cap common stocks, with the ability to invest in companies of any size. Following the Realignment, the Portfolio would apply an investment process in which a team of Janus Capital's equity research analysts, overseen by the Portfolio Oversight Team led by Janus Capital's Director of Research (the “Research Team”), selects investments that represent the Research Team's high-conviction investment ideas in all market capitalizations and styles and expects to be broadly diversified among a variety of industry sectors, whereas the Portfolio's current investment process, while utilizing ideas of the Research Team, is based on the portfolio managers applying their “bottom up” approach to selecting investments, which may result in broad diversification among industry sectors. The Portfolio does not currently have a formal policy to balance sector weightings, however, following the Realignment, securities held by the Portfolio may be sold to rebalance sector weightings. For additional information regarding the investment strategy changes, please see the Fund's prospectuses.

**Portfolio Manager Changes:** Currently, co-portfolio managers Jean Barnard and Burton H. Wilson jointly share responsibility for the day-to-day management of the Portfolio, with no limitation on the authority of one co-portfolio manager in relation to the other. Following the Realignment, the Research Team (Janus Capital's equity research analysts overseen by the Portfolio Oversight Team led by Carmel Wellso) will select investments for the Portfolio and Carmel Wellso will be responsible for the day-to-day management of the Portfolio.

In connection with the Realignment, if the Amended Advisory Agreement is approved by shareholders of the Portfolio, the benchmark index will change from the Core Growth Index to the Russell 1000<sup>®</sup> Growth Index and the performance hurdle used to calculate the performance fee adjustment will change from  $\pm 4.50\%$  to  $\pm 5.00\%$ .

The Core Growth Index is an internally-calculated, hypothetical combination of unmanaged indices that combines total returns from the Russell 1000<sup>®</sup> Growth Index (50%) and the S&P 500<sup>®</sup> Index (50%). The Russell 1000<sup>®</sup> Growth Index measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values. The S&P 500<sup>®</sup> Index is a commonly recognized, market-capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

Other than the change to the benchmark index and performance hurdle used to calculate the Portfolio's performance fee adjustment and the date of execution, the terms of the amended investment advisory agreement are substantially similar to those of the current investment advisory agreement. The proxy statement relating to the proposal to approve the amended investment advisory agreement includes additional information regarding the performance adjustment calculation changes, including a comparison of the proposed and current performance fee benchmark indices, impact of proposed changes to the advisory fees, comparison of current and pro forma expenses of the Portfolio, and additional information regarding the calculation of the performance adjustment and the implementation of the changes to the performance adjustment.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.

### 9. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

# Janus Aspen Janus Portfolio

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Aspen Janus Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Janus Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") as of December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Denver, Colorado  
February 10, 2017

# Janus Aspen Janus Portfolio

## Additional Information (unaudited)

### Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at [janus.com/proxyvoting](http://janus.com/proxyvoting); and (iii) on the SEC's website at <http://www.sec.gov>. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through [janus.com/proxyvoting](http://janus.com/proxyvoting) and from the SEC's website at <http://www.sec.gov>.

### Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at <http://www.sec.gov>; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

### APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's

## Janus Aspen Janus Portfolio

### Additional Information (unaudited)

business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

## Janus Aspen Janus Portfolio

### Additional Information (unaudited)

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The

## **Janus Aspen Janus Portfolio**

### **Additional Information (unaudited)**

term “unfair burden” is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an “unfair burden” will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds’ shareholders (the “Meetings”), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds’ shareholders for their approval.

#### ***Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period***

In the event shareholders of a Fund do not approve such Fund’s New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an “Interim Advisory Agreement” and collectively, the “Interim Advisory Agreements”) and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an “Interim Sub-Advisory Agreement” and collectively, the “Interim Sub-Advisory Agreements”) take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the “150-day period”) or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

#### ***Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio***

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the “Amended Advisory Agreement”) between Janus Capital and the Trust on behalf of



## Janus Aspen Janus Portfolio

### Additional Information (unaudited)

Janus Portfolio (for the purposes of this section, the “Fund” refers to Janus Portfolio) and other matters related to the proposed changes to the Fund’s name, principal investment strategies, and portfolio management team (the “Realignment”). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board’s consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see “Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period” above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the “Full Performance Rate”) and cumulative investment record of the Fund’s benchmark index (the “Performance Fee Benchmark”);
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund’s investment team will be able to more efficiently manage the Fund’s portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital’s belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund’s current investment approach;
- the Realignment was being proposed as part of Janus Capital’s efforts to streamline its product line;
- Janus Capital’s belief that the Fund would benefit from Janus Capital’s operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund’s portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund’s portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

# Janus Aspen Janus Portfolio

## Useful Information About Your Portfolio Report (unaudited)

### Management Commentary

The Management Commentary in this report includes valuable insight as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. A company may be allocated to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2016. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

### Performance Overviews

Performance overview graphs compare the performance of a hypothetical \$10,000 investment in the Portfolio with one or more widely used market indices. When comparing the performance of the Portfolio with an index, keep in mind that market indices are not available for investment and do not reflect deduction of expenses.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

### Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, swaptions, and swaps follow the Portfolio's Schedule of Investments (if applicable).

### Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

# Janus Aspen Janus Portfolio

## Useful Information About Your Portfolio Report (unaudited)

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

### Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

### Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

### Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the

## **Janus Aspen Janus Portfolio**

### **Useful Information About Your Portfolio Report (unaudited)**

period. The next line reflects the total return for the period. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio. Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager(s) and/or investment personnel. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

# Janus Aspen Janus Portfolio

## Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

### Proposal

To elect eight Trustees, each of whom is considered "independent."

Trustees	Record Date Votes (\$)	Number of Votes (\$)		
		Affirmative	Withheld	Total
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

Trustees	Votes (%)			Percentage Voted (%)		
	Affirmative	Withheld	Total	Affirmative	Withheld	Total
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

## Janus Aspen Janus Portfolio

### Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Capital Gain Distributions	\$31,384,876
Dividends Received Deduction Percentage	100%

## **Janus Aspen Janus Portfolio**

### **Trustees and Officers (unaudited)**

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 58 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman	1/08-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
	Trustee	6/02-Present			



# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	58	Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11- Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	58	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16-Present	Senior Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	58	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
<b>Independent Trustees</b>					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	58	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
Jean Barnard 151 Detroit Street Denver, CO 80206 DOB: 1970	Executive Vice President and Co-Portfolio Manager Janus Aspen Janus Portfolio	1/16-Present	Portfolio Manager for other Janus accounts and Analyst for Janus Capital.
Burton H. Wilson 151 Detroit Street Denver, CO 80206 DOB: 1963	Executive Vice President and Co-Portfolio Manager Janus Aspen Janus Portfolio	5/11-Present	Vice President of Janus Capital and Portfolio Manager for other Janus accounts. Formerly, Assistant Director of Equity Research (2009-2014).
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

# Janus Aspen Janus Portfolio

## Trustees and Officers (unaudited)

### OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer  Vice President, Treasurer, and Principal Accounting Officer	3/05-Present  2/05-Present	Vice President of Janus Capital and Janus Services LLC.
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

\* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

## **Janus Aspen Janus Portfolio**

### **Notes**



## **Janus Aspen Janus Portfolio**

### **Notes**

## **Janus Aspen Janus Portfolio**

### **Notes**

## Janus provides access to a wide range of investment disciplines.

### Alternative

Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

### Asset Allocation

Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

### Fixed Income

Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

### Global & International

Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

### Growth & Core

Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

### Mathematical

Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH<sup>®</sup> (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

### Value

Our value funds, managed by Perkins<sup>®</sup> (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

**For more information about our funds, contact your investment professional or go to [janus.com/variable-insurance](http://janus.com/variable-insurance).**



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*Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from [janus.com/variable-insurance](http://janus.com/variable-insurance). Read it carefully before you invest or send money.*

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December 31, 2016

*Annual Report*

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# Equity Income Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.

## T. Rowe Price Equity Income Portfolio

### Highlights

- U.S. stocks surged in 2016 as oil prices rebounded from depressed levels, the Fed kept interest rates low, and a post-presidential election rally pushed the major U.S. indexes to record highs at year-end.
- The Equity Income Portfolio posted a double-digit return in 2016 and widely outperformed the S&P 500 Index and Lipper peer group average.
- Every sector except real estate contributed to relative returns. Strong stock selection in the information technology and energy sectors helped performance. The telecommunication services sector was the sole detractor from relative returns.
- Much of the postelection rally has been driven by market participants' attempts to identify the potential winners and losers under the incoming administration, though much about the new president's policies remains unknown. We expect greater volatility and subdued market performance in the near term as the timing and scope of the new administration's policies become clear.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price Equity Income Portfolio

### Dear Investor

U.S. stocks rose in 2016, a particularly tumultuous year for investors. After one of the worst starts to a new year, stocks turned a corner in February as China-focused fears receded, oil prices rebounded, and the Federal Reserve signaled that it would proceed cautiously in raising interest rates. Two political upsets rocked global markets in the ensuing months: the UK's vote to leave the European Union in June and Donald Trump's win in the U.S. presidential election in November. After a bout of volatility accompanying both events, global stock markets resumed their upswing as investors digested the longer-term implications of Brexit and a Trump presidency. By year-end, the major U.S. stock indexes ended near record highs as investors anticipated that the new administration would implement policies spurring faster growth and inflation. Against this volatile backdrop, the Equity Income Portfolio posted a double-digit return in 2016 and outpaced its benchmark.

#### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
Equity Income Portfolio	11.67%	19.17%
Equity Income Portfolio-II	11.52	18.85
S&P 500 Index	7.82	11.96
Lipper Variable Annuity Underlying Equity Income Funds Average	8.39	14.45

The Equity Income Portfolio returned 11.67% and 19.17% for the six and 12 months ended December 31, 2016, respectively, versus 7.82% and 11.96% for the Standard & Poor's 500 Index over the same periods. The portfolio also outpaced the returns of its peer group, the Lipper Variable Annuity Underlying Equity Income Funds Average, for both periods. (Returns for the Equity Income Portfolio-II reflect its different fee structure.)

Every sector except real estate contributed to absolute performance. Stock selection in information technology lifted returns thanks to several semiconductor holdings that generated double-digit returns on buoyant chip demand. Our energy sector holdings also helped performance, driven by positions in several oil and gas producers whose shares rallied as oil prices sharply rebounded from historic lows in early 2016. On the other hand, our selection in the telecommunication services sector proved less helpful. We held a few European telecom companies whose shares sank after

Brexit, which triggered deep uncertainty across the Continent and big losses in the euro and the pound, eroding the returns from European companies in dollar terms.

### Market Environment

U.S. stocks plummeted at the start of 2016 as worries about China's economic slowdown and collapsing oil prices spurred fears of a worldwide recession. Sentiment began to turn in mid-February as concerns about a global oversupply in oil abated and the Fed held back on raising interest rates. The market's advance was curtailed in June by Brexit, which sparked a two-day global stock sell-off and upheaval in foreign currencies. However, U.S. stocks proved resilient and resumed their ascent over the summer, aided by improving economic data and a stabilization in corporate earnings. Stocks drifted lower in the weeks preceding the U.S. elections in November but rallied after the outcome as investors bet that the new president and a Republican-controlled Congress would cut taxes, loosen regulations, and step up infrastructure spending.

Value stocks outpaced growth stocks across the capitalization spectrum. Large-cap stocks lagged mid- and small-cap stocks as investors deemed that smaller companies with greater exposure to the domestic economy would benefit more from Trump's homeward-focused policies and a strong dollar than larger, more globally exposed companies.

Nine of 11 sectors in the S&P 500 advanced, led by energy and financials, which both returned more than 20%. Energy stocks rallied as U.S. oil prices climbed from decade lows and ended the year above the \$50 per barrel threshold, lifted by an unexpected deal among the world's leading oil producers last November to reduce oil output starting in 2017. Financial stocks advanced as the prospect of rising interest rates and relaxed banking regulations under the new administration improved their earnings outlook. The real estate and health care sectors posted modest declines.

### Portfolio Review

The Equity Income Portfolio seeks to buy well-established, large-cap companies that typically have a strong record of paying dividends and that appear to be undervalued by the market. The holdings tend to be solid, higher-quality companies going through a period of underperformance, reflecting our dual focus on

valuation and dividend yield. All but four companies in your portfolio paid a dividend over the past 12 months. Most of our holdings are U.S. companies, though we will invest in opportunities overseas if they meet our investment criteria. We are bottom-up investors, meaning that we select stocks based on their individual merits as opposed to broader market or economic trends.

## Sector Diversification

	Percent of Net Assets	
	6/30/16	12/31/16
Financials	20.2%	24.9%
Industrials and Business Services	13.8	12.7
Energy	12.1	11.0
Health Care	9.4	9.0
Information Technology	8.9	9.0
Consumer Discretionary	9.5	8.6
Utilities	8.4	7.7
Consumer Staples	5.1	5.4
Materials	4.9	4.9
Telecommunication Services	2.9	2.7
Real Estate	1.7	2.0
Other and Reserves	3.1	2.1
Total	100.0%	100.0%

Historical weightings reflect current industry/sector classifications.

Energy stocks contributed significantly to performance in 2016, a stark turnaround from the prior year when concerns over excess supply and slowing global growth caused oil and natural gas prices to plummet. Oil and gas exploration and production companies **Apache** and **Canadian Natural Resources** and global oil majors **ExxonMobil**, **Total**, and **Royal Dutch Shell** were sizable contributors as oil prices climbed 45% over the year, lifted by a deal among the Organization of Petroleum Exporting Countries to cut output for the first time since 2008. While it is difficult to predict oil prices with any certainty, we take solace in knowing that our holdings have solid balance sheets, access to low-cost sources of oil and natural gas, and lower cost structures--attributes that we believe will allow them to hold up well even if oil prices come under pressure. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

## Financial Profile

As of 12/31/16	Equity Income Portfolio	S&P 500 Index
Price/Book Ratio	2.4X	3.8X
Price/Earnings Ratio (Based on next 12 months' estimated earnings)*	15.8X	18.2X
Historical Beta (Based on monthly returns for five years)	1.0	1.0

\*Source for data: IBES. Statistics are based on the companies in the portfolio and are not a projection of future portfolio performance.

Strong stock selection in the information technology sector also helped returns. Significant contributors included semiconductor manufacturing equipment maker **Applied Materials**, which reported a string of surprisingly strong earnings and surging orders throughout 2016, and mobile phone chipmaker **Qualcomm**, whose shares rallied last fall on news that it was in talks to acquire rival chipmaker NXP Semiconductors. In the past two years, semiconductor companies have undergone a wave of consolidation that has boosted valuations, and we have recently trimmed our exposure to the industry. Elsewhere in the tech sector, we reduced our position in computer disk-drive maker **Western Digital** after strong performance.

Financials, the portfolio's largest sector allocation, lifted performance through good stock selection. After struggling with ultralow interest rates since the 2007–2008 global financial crisis, financial stocks soared after the election as investors anticipated that the new administration's fiscal policies would lead to a faster pace of interest rate increases, corporate tax cuts, and less regulatory oversight—all of which would boost profitability for banks. Our positions in **JPMorgan Chase** and **Morgan Stanley** participated in the postelection rally and were among the portfolio's top contributors. We took profits in some of our strong performers in financials to increase our position in **Wells Fargo**, whose shares dropped to multiyear lows in September after reports surfaced of a fraudulent customer accounts scandal at its retail banks. Despite Wells Fargo's well-publicized troubles, we believe that its shares represented a good buying opportunity and that the bank will move past the crisis after abandoning its retail banks' sales goals and appointing a new and more transparent chief executive.

Not all of our financials holdings participated in the post-U.S. election rally, however. **Royal Bank of Scotland** (RBS) shares slumped as it contended with a host of problems ranging from low interest rates, Brexit-induced uncertainty, investigations into its mortgage securitizations by U.S. authorities, and, most recently, failure to pass the annual stress test required by the UK banking regulator. RBS shares lost more than a third of their value in 2016, making the bank one of the portfolio's biggest detractors. RBS is in the midst of a five-year restructuring program, and we believe that management's ongoing efforts to cut expenses and sell non-core assets will benefit shareholders over the long term.

Brexit-related concerns also drove declines in our European holdings in the telecommunication services sector. **Telefonica** and **Vodafone**, the dominant providers in Spain and the UK, respectively, were significant detractors. Besides unleashing widespread economic and political uncertainty across Europe, Brexit also spurred steep declines in the euro and the pound against the dollar, which contributed to both companies' weak performance. We continue to hold Telefonica for its attractive valuation, growing free cash flow, and margin improvement potential. We added to our position in Vodafone, which recently concluded a two-year upgrade of its mobile infrastructure worldwide that is starting to pay off in the form of improved mobile service revenue in Europe, where the company generates most of its business.

## Outlook

Much of the U.S. stock market rally since Election Day has been driven by speculation about the incoming president's fiscal policies. However, predicting the near-term direction of the economy, stock market, or individual companies is a difficult exercise made more challenging by the high level of unknowns about Donald Trump's first year as president. While there will be winners and losers under the new administration, much is uncertain about the timing and scope of the policies espoused by the new administration and their effect on the economy, taxation, trade, and other areas. Valuations are generally less attractive as a result of the past year's advance. We have recently added to select consumer staples and health care companies whose shares fell to what we believed were compelling levels, reflecting our more defensive positioning as we anticipate greater volatility in the coming months.

The combination of U.S. policy instability and less appealing valuations will likely generate heightened stock market volatility in the near term, in our view. Last year ranked among the most volatile years for the stock market since the 2007–2008 global financial crisis, and we see little indication that volatility will subside in the coming months. Additionally, correlations between individual stocks—a gauge of their tendency to move in lockstep, regardless of their underlying fundamentals—sank to multiyear lows at the end of 2016. We are encouraged by the combination of elevated volatility and falling correlations, which favors our style of active management by increasing the number of opportunities to buy and sell companies at more attractive prices.

In this uncertain environment, we believe that sticking to our strategy of using T. Rowe Price's considerable strengths in fundamental research to identify companies with compelling valuations, attractive fundamentals, and strong dividend yields represents the best way to generate solid returns for our shareholders over the long term.

Thank you for investing with T. Rowe Price.

Respectfully submitted,



John D. Linehan  
*President of the portfolio and chairman of its Investment Advisory Committee*



Heather McPherson  
*Associate portfolio manager*

January 14, 2017

*The committee chairman has day-to-day responsibility for managing the portfolio and works with committee members in developing and executing its investment program.*



## Risks of Investing

Value investors seek to invest in companies whose stock prices are low in relation to their real worth or future prospects. By identifying companies whose stocks are currently out of favor or misunderstood, value investors hope to realize significant appreciation as other investors recognize the stock's intrinsic value and the price rises accordingly. The value approach carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced.

## Glossary

**Beta:** A measure of a fund's historical volatility relative to the overall market. For example, a fund with a beta of 1.5 over the past year would have experienced swings in its net asset value 50% greater than those of its benchmark, while a fund with a beta of 0.5 would have been 50% less volatile.

**Dividend yield:** The annual dividend of a stock divided by the stock's price.

**Earnings growth rate – current fiscal year:** Measures the annualized percent change in earnings per share from the prior fiscal year to the current fiscal year.

**Lipper indexes:** Fund benchmarks that consist of a small number (10 to 30) of the largest mutual funds in a particular category as tracked by Lipper Inc.

**Price-to-earnings (P/E) ratio – current fiscal year:** A valuation measure calculated by dividing the price of a stock by its reported earnings per share from the latest fiscal year. The ratio is a measure of how much investors are willing to pay for the company's earnings. The higher the P/E, the more investors are paying for the company's current earnings.

**Price-to-earnings (P/E) ratio – next fiscal year:** A valuation measure calculated by dividing the price of a stock by its estimated earnings for the next fiscal year. The ratio is a measure of how much investors are willing to pay for the company's future earnings. The higher the P/E, the more investors are paying for the company's expected earnings growth in the next fiscal year.

**Price-to-earnings (P/E) ratio – 12 months forward:** A valuation measure calculated by dividing the price of a stock by the analysts' forecast of the next 12 months' expected earnings. The ratio is a measure of how much investors are willing to pay for the company's future earnings. The higher the P/E, the more investors are paying for the company's earnings growth in the next 12 months.

## Glossary (continued)

**Projected earnings growth rate (IBES):** A company's expected earnings per share growth rate for a given time period based on the forecast from the Institutional Brokers' Estimate System, which is commonly referred to as IBES.

**S&P 500 Index:** An unmanaged index that tracks the stocks of 500 primarily large-cap U.S. companies.

## Portfolio Highlights

### Twenty-Five Largest Holdings

	Percent of Net Assets 12/31/16
JPMorgan Chase	3.5%
ExxonMobil	2.7
Microsoft	2.1
Morgan Stanley	2.1
Pfizer	2.0
Boeing	2.0
GE	1.9
Total	1.8
Wells Fargo	1.8
Johnson & Johnson	1.7
Verizon Communications	1.7
MetLife	1.7
Loews	1.6
Johnson Controls International	1.6
El du Pont de Nemours	1.5
State Street	1.5
Royal Dutch Shell	1.5
Citigroup	1.4
Harris	1.4
Anthem	1.4
Ameriprise Financial	1.3
Qualcomm	1.3
Twenty-First Century Fox	1.3
Northern Trust	1.2
PG&E	1.2
Total	43.2%

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.

## Portfolio Highlights

### Major Portfolio Changes

Listed in descending order of size.  
Six Months Ended 12/31/16

#### LARGEST PURCHASES

NextEra Energy\*  
Equity Residential\*  
Coty\*  
Johnson Controls International  
KeyCorp\*  
Adient\*  
Wells Fargo  
Medtronic  
Great Plains Energy\*  
Hess

#### LARGEST SALES

GE  
Entergy\*\*  
Deere\*\*  
Canadian Natural Resources  
Bank of America  
Johnson Controls\*\*  
JPMorgan Chase  
Applied Materials  
Western Digital  
Canadian Pacific Railway\*\*

12 Months Ended 12/31/16

#### LARGEST PURCHASES

Total  
Johnson Controls International  
CF Industries\*  
Twenty-First Century Fox  
NextEra Energy\*  
Medtronic\*  
Diageo\*  
Equity Residential\*  
Coty\*  
Western Digital

#### LARGEST SALES

GE  
Entergy\*\*  
JPMorgan Chase  
Apache  
Dell\*\*  
Bank of America  
Applied Materials  
Deere\*\*  
Canadian Natural Resources  
Johnson Controls\*\*

\*Position added.

\*\*Position eliminated.

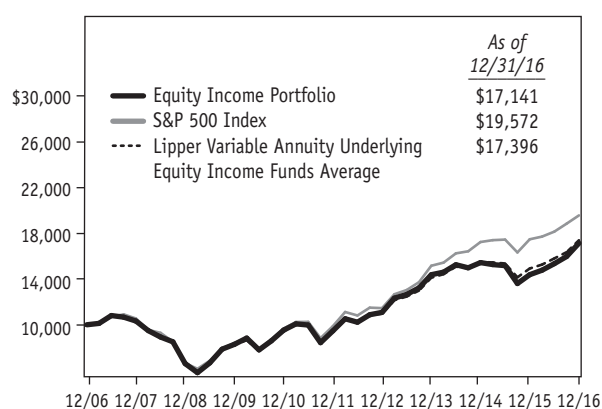
## Performance and Expenses

### T. Rowe Price Equity Income 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 may include a broad-based market index and 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.

#### Equity Income Portfolio



Note: Performance for the II Class will vary due to its differing fee structure. See the returns table below.

#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
Equity Income Portfolio	19.17%	12.62%	5.54%
Equity Income Portfolio-II	18.85	12.34	5.27

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. 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). Returns do not reflect taxes that the shareholder may pay on distributions or the redemption of shares. 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.

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. Please note that the fund has two classes of shares: the original share class and II Class. II Class shares are sold through financial intermediaries, which are compensated for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan.

#### 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.

## Fund Expense Example (continued)

	Beginning Account Value 7/1/16	Ending Account Value 12/31/16	Expenses Paid During Period* 7/1/16 to 12/31/16
<b>Equity Income Portfolio</b>			
Actual	\$1,000.00	\$1,116.70	\$4.52
Hypothetical (assumes 5% return before expenses)	1,000.00	1,020.86	4.32
<b>Equity Income Portfolio–II</b>			
Actual	1,000.00	1,115.20	5.85
Hypothetical (assumes 5% return before expenses)	1,000.00	1,019.61	5.58

\*Expenses are equal to the portfolio's annualized expense ratio for the 6-month period, 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 (366) to reflect the half-year period. The annualized expense ratio of the Equity Income Portfolio was 0.85%, and the Equity Income Portfolio–II was 1.10%.

## Financial Highlights

T. Rowe Price Equity Income Portfolio

### Equity Income Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 26.81	\$ 30.02	\$ 28.45	\$ 22.27	\$ 19.42
Investment activities					
Net investment income <sup>(1)</sup>	0.61	0.52	0.50	0.40	0.42
Net realized and unrealized gain / loss	4.50 <sup>(2)</sup>	(2.58)	1.58	6.18	2.89
Total from investment activities	5.11	(2.06)	2.08	6.58	3.31
Distributions					
Net investment income	(0.67)	(0.53)	(0.51)	(0.40)	(0.46)
Net realized gain	(2.91)	(0.62)	-	-	-
Total distributions	(3.58)	(1.15)	(0.51)	(0.40)	(0.46)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 28.34</b>	<b>\$ 26.81</b>	<b>\$ 30.02</b>	<b>\$ 28.45</b>	<b>\$ 22.27</b>

### Ratios/Supplemental Data

<b>Total return<sup>(3)</sup></b>	<b>19.17%<sup>(2)</sup></b>	<b>(6.85)%</b>	<b>7.38%</b>	<b>29.72%</b>	<b>17.15%</b>
Ratio of total expenses to average net assets	0.85%	0.85%	0.85%	0.85%	0.85%
Ratio of net investment income to average net assets	2.17%	1.78%	1.72%	1.57%	2.00%
Portfolio turnover rate	18.5%	27.5%	11.4%	12.7%	15.9%
Net assets, end of period (in millions)	\$ 551	\$ 605	\$ 851	\$ 852	\$ 694

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</sup> See Note 5. Includes a voluntary payment from Price Associates, representing \$0.13 per share based upon shares outstanding on the date of payment. The payment increased total return by 0.53%.

<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.

## Financial Highlights

T. Rowe Price Equity Income Portfolio

### Equity Income-II Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 26.73	\$ 29.94	\$ 28.38	\$ 22.22	\$ 19.37
Investment activities					
Net investment income <sup>(1)</sup>	0.52	0.44	0.43	0.34	0.36
Net realized and unrealized gain / loss	4.50 <sup>(2)</sup>	(2.57)	1.57	6.16	2.90
Total from investment activities	5.02	(2.13)	2.00	6.50	3.26
Distributions					
Net investment income	(0.59)	(0.46)	(0.44)	(0.34)	(0.41)
Net realized gain	(2.91)	(0.62)	-	-	-
Total distributions	(3.50)	(1.08)	(0.44)	(0.34)	(0.41)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 28.25</b>	<b>\$ 26.73</b>	<b>\$ 29.94</b>	<b>\$ 28.38</b>	<b>\$ 22.22</b>

### Ratios/Supplemental Data

<b>Total return<sup>(3)</sup></b>	<b>18.85%<sup>(2)</sup></b>	<b>(7.10)%</b>	<b>7.10%</b>	<b>29.41%</b>	<b>16.92%</b>
Ratio of total expenses to average net assets	1.10%	1.10%	1.10%	1.10%	1.10%
Ratio of net investment income to average net assets	1.89%	1.51%	1.47%	1.32%	1.75%
Portfolio turnover rate	18.5%	27.5%	11.4%	12.7%	15.9%
Net assets, end of period (in thousands)	\$ 205,562	\$ 270,238	\$ 406,097	\$ 392,357	\$ 297,990

(1) Per share amounts calculated using average shares outstanding method.

(2) See Note 5. Includes a voluntary payment from Price Associates, representing \$0.13 per share based upon shares outstanding on the date of payment. The payment increased total return by 0.51%.

(3) 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.

## Portfolio of Investments†

T. Rowe Price Equity Income Portfolio

December 31, 2016

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>COMMON STOCKS 96.8%</b>		
<b>Consumer Discretionary 8.6%</b>		
<b>Auto Components 0.6%</b>		
Adient (1)	77,420	4,537
		4,537
<b>Automobiles 0.4%</b>		
Ford Motor	161,900	1,964
General Motors	34,537	1,203
		3,167
<b>Hotels, Restaurants &amp; Leisure 1.6%</b>		
Carnival	100,600	5,237
Las Vegas Sands	134,318	7,174
		12,411
<b>Leisure Products 0.8%</b>		
Mattel	228,000	6,282
		6,282
<b>Media 3.8%</b>		
Comcast, Class A	129,400	8,935
News Corp, Class A	443,900	5,087
Time Warner	10,066	972
Twenty-First Century Fox	349,900	9,535
Walt Disney	41,600	4,335
		28,864
<b>Multiline Retail 1.3%</b>		
Kohl's	114,000	5,629
Macy's	107,000	3,832
		9,461
<b>Specialty Retail 0.1%</b>		
Staples	36,900	334
		334
Total Consumer Discretionary		<b>65,056</b>
<b>Consumer Staples 5.4%</b>		
<b>Beverages 1.7%</b>		
Diageo (GBP)	163,782	4,237

	Shares/Par	\$ Value
(Cost and value in \$000s)		
PepsiCo	80,600	8,433
		12,670
<b>Food &amp; Staples Retailing 0.9%</b>		
Wal-Mart	93,200	6,442
		6,442
<b>Food Products 1.8%</b>		
Archer-Daniels-Midland	195,800	8,938
Hershey Foods	9,800	1,014
Kellogg	51,900	3,826
		13,778
<b>Personal Products 0.6%</b>		
Avon (1)	246,600	1,243
Coty, Class A	189,070	3,462
		4,705
<b>Tobacco 0.4%</b>		
Philip Morris International	33,000	3,019
		3,019
Total Consumer Staples		<b>40,614</b>
<b>Energy 11.0%</b>		
<b>Oil, Gas &amp; Consumable Fuels 11.0%</b>		
Apache	117,140	7,435
Canadian Natural Resources	106,600	3,398
Chevron	73,452	8,645
EQT	34,710	2,270
ExxonMobil	227,822	20,563
Hess	147,000	9,157
Occidental Petroleum	97,600	6,952
Royal Dutch Shell, ADR	203,300	11,055
Targa Resources	12,300	690
Total, Rights, 1/19/17		
(EUR) (1)	263,392	—
Total (EUR)	263,392	13,446
Total Energy		<b>83,611</b>



# T. Rowe Price Equity Income Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Financials 24.9%</b>		
<b>Banks 11.1%</b>		
Bank of America	325,575	7,195
Citigroup	184,400	10,959
Fifth Third Bancorp	250,500	6,756
JPMorgan Chase	303,741	26,210
KeyCorp	321,700	5,877
PNC Financial Services Group	58,700	6,866
Royal Bank of Scotland (GBP) (1)	1,139,598	3,147
U.S. Bancorp	73,400	3,771
Wells Fargo	243,520	13,420
		84,201
<b>Capital Markets 7.1%</b>		
Ameriprise Financial	87,100	9,663
Bank of New York Mellon	141,000	6,680
Morgan Stanley	371,200	15,683
Northern Trust	105,100	9,359
Och-Ziff Capital Management Partnership (1)	235,600	780
State Street	144,000	11,192
		53,357
<b>Consumer Finance 1.2%</b>		
American Express	125,500	9,297
		9,297
<b>Insurance 5.5%</b>		
Chubb	10,750	1,420
Loews	263,700	12,349
Marsh & McLennan	133,400	9,017
MetLife	237,200	12,783
Willis Towers Watson	29,030	3,550
XL Group	57,900	2,157
		41,276
Total Financials		<b>188,131</b>

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Health Care 9.0%</b>		
<b>Biotechnology 0.4%</b>		
Gilead Sciences	46,800	3,351
		3,351
<b>Health Care Equipment &amp; Supplies 1.3%</b>		
Becton, Dickinson & Company	32,800	5,430
Medtronic	60,500	4,310
		9,740
<b>Health Care Providers &amp; Services 1.4%</b>		
Anthem	71,900	10,337
		10,337
<b>Pharmaceuticals 5.9%</b>		
Bristol-Myers Squibb	103,500	6,049
GlaxoSmithKline (GBP)	210,988	4,029
Johnson & Johnson	112,900	13,007
Merck	113,100	6,658
Pfizer	466,914	15,166
		44,909
Total Health Care		<b>68,337</b>
<b>Industrials &amp; Business Services 12.7%</b>		
<b>Aerospace &amp; Defense 3.6%</b>		
Boeing	95,400	14,852
Harris	103,450	10,600
United Technologies	16,200	1,776
		27,228
<b>Air Freight &amp; Logistics 0.9%</b>		
UPS, Class B	59,900	6,867
		6,867
<b>Airlines 0.4%</b>		
Southwest Airlines	55,400	2,761
		2,761
<b>Building Products 1.6%</b>		
Johnson Controls International	293,706	12,098
		12,098

## T. Rowe Price Equity Income Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Electrical Equipment 1.0%</b>		
Emerson Electric	131,900	7,353
		7,353
<b>Industrial Conglomerates 1.9%</b>		
GE	464,600	14,681
		14,681
<b>Machinery 2.7%</b>		
Cummins	32,100	4,387
Flowserve	81,931	3,937
Illinois Tool Works	61,500	7,531
Pentair	77,000	4,318
		20,173
<b>Road &amp; Rail 0.6%</b>		
Union Pacific	47,400	4,915
		4,915
Total Industrials & Business Services		<b>96,076</b>
<b>Information Technology 8.9%</b>		
<b>Communications Equipment 1.2%</b>		
Cisco Systems	303,900	9,184
		9,184
<b>Electronic Equipment, Instruments &amp; Components 0.3%</b>		
TE Connectivity	34,800	2,411
		2,411
<b>Semiconductor &amp; Semiconductor Equipment 4.1%</b>		
Analog Devices	95,200	6,913
Applied Materials	239,900	7,742
Qualcomm	147,800	9,637
Texas Instruments	96,800	7,063
		31,355
<b>Software 2.3%</b>		
CA	39,000	1,239
Microsoft	259,800	16,144
		17,383
<b>Technology Hardware, Storage &amp; Peripherals 1.0%</b>		
Apple	24,500	2,837

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Western Digital	68,400	4,648
		7,485
Total Information Technology		<b>67,818</b>
<b>Materials 4.9%</b>		
<b>Chemicals 2.3%</b>		
CF Industries	185,300	5,833
EI du Pont de Nemours	154,700	11,355
		17,188
<b>Construction Materials 0.8%</b>		
Vulcan Materials	49,300	6,170
		6,170
<b>Containers &amp; Packaging 1.1%</b>		
International Paper	161,053	8,546
		8,546
<b>Metals &amp; Mining 0.7%</b>		
Nucor	84,600	5,035
		5,035
Total Materials		<b>36,939</b>
<b>Real Estate 2.0%</b>		
<b>Real Estate Investment Trusts 2.0%</b>		
Equity Residential, REIT	70,900	4,563
Rayonier, REIT	174,700	4,647
Weyerhaeuser, REIT	191,392	5,759
Total Real Estate		<b>14,969</b>
<b>Telecommunication Services 2.7%</b>		
<b>Diversified Telecommunication Services 2.4%</b>		
CenturyLink	128,207	3,049
Telefonica (EUR)	260,723	2,418
Verizon Communications	241,770	12,905
		18,372
<b>Wireless Telecommunication Services 0.3%</b>		
Vodafone (GBP)	828,637	2,038
		2,038
Total Telecommunication Services		<b>20,410</b>

# T. Rowe Price Equity Income Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Utilities 6.7%</b>		
<b>Electric Utilities 4.7%</b>		
Edison International	93,600	6,738
Exelon	199,000	7,063
FirstEnergy	147,704	4,574
Great Plains Energy	5,918	162
PG&E	153,700	9,341
Southern Company	41,000	2,017
XCEL Energy	139,700	5,686
		35,581
<b>Independent Power &amp; Renewable Electricity Producers 0.9%</b>		
AES	577,500	6,710
		6,710
<b>Multi-Utilities 1.1%</b>		
NiSource	362,000	8,015
		8,015
Total Utilities		<b>50,306</b>
Total Miscellaneous Common Stocks 0.0% (5)		<b>366</b>
<b>Total Common Stocks (Cost \$518,507)</b>		<b>732,633</b>

## CONVERTIBLE PREFERRED STOCKS 1.1%

### Utilities 1.1%

#### Electric Utilities 0.9%

Great Plains Energy	39,537	1,977
NextEra Energy	98,007	4,745
		6,722

#### Multi-Utilities 0.2%

DTE Energy	23,048	1,217
		1,217
Total Utilities		<b>7,939</b>

### Total Convertible Preferred Stocks (Cost \$7,915)

**7,939**

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>CORPORATE BONDS 0.2%</b>		
Valeant Pharmaceuticals		
6.375%, 10/15/20 (2)	90,000	77
Western Digital		
10.50%, 4/1/24 (2)	1,200,000	1,416
<b>Total Corporate Bonds (Cost \$1,276)</b>		<b>1,493</b>
<b>SHORT-TERM INVESTMENTS 2.1%</b>		
<b>Money Market Funds 2.1%</b>		
T. Rowe Price Government Reserve Fund		
0.43% (3)(4)	15,700,452	15,700
<b>Total Short-Term Investments (Cost \$15,700)</b>		<b>15,700</b>
<b>Total Investments in Securities</b>		
100.2% of Net Assets (Cost \$543,398)	<b>\$</b>	<b>757,765</b>

‡ Shares/Par are denominated in U.S. dollars unless otherwise noted.

- (1) Non-income producing
- (2) 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 \$1,493 and represents 0.2% of net assets.
- (3) Seven-day yield
- (4) Affiliated Company
- (5) The identity of certain securities has been concealed to protect the fund while it completes a purchase or selling program for the securities.

ADR American Depositary Receipts

EUR Euro

GBP British Pound

REIT A domestic Real Estate Investment Trust whose distributions pass-through with original tax character to the shareholder

**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 which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Purchase and sales cost and investment income reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Investment Income</b>	<b>Value 12/31/16</b>	<b>Value 12/31/15</b>
T. Rowe Price Government Reserve Fund +	□	□	\$ 35	\$ 15,700	\$ 5,124
Totals			<u>\$ 35</u>	<u>\$ 15,700</u>	<u>\$ 5,124</u>

□ Purchase and sale information not shown for cash management funds.

+ At December 31, 2015, the underlying fund's name was T. Rowe Price Reserve Investment Fund.

Amounts reflected on the accompanying financial statements include the following amounts related to affiliated companies:

Investment in securities, at cost	<u>\$ 15,700</u>
Dividend income	35
Interest income	—
Investment income	<u>\$ 35</u>
Realized gain (loss) on securities	<u>\$ —</u>
Capital gain distributions from mutual funds	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price Equity Income Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$543,398)	\$ 757,765
Dividends and interest receivable	1,465
Receivable for shares sold	212
Receivable for investment securities sold	111
Other assets	34
Total assets	<u>759,587</u>

### Liabilities

Payable for shares redeemed	2,334
Investment management and administrative fees payable	705
Total liabilities	<u>3,039</u>

### NET ASSETS

**\$ 756,548**

### Net Assets Consist of:

Accumulated undistributed net realized gain	3,861
Net unrealized gain	214,366
Paid-in capital applicable to 26,720,447 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized	<u>538,321</u>

### NET ASSETS

**\$ 756,548**

### NET ASSET VALUE PER SHARE

#### Equity Income Class

(\$550,986,104 / 19,444,184 shares outstanding)

**\$ 28.34**

#### Equity Income - II Class

(\$205,562,010 / 7,276,263 shares outstanding)

**\$ 28.25**

The accompanying notes are an integral part of these financial statements.

## Statement of Operations

T. Rowe Price Equity Income Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Income	
Dividend	\$ 23,136
Interest	116
Total income	23,252
Expenses	
Investment management and administrative expense	6,574
Rule 12b-1 fees - Equity Income-II Class	540
Total expenses	7,114
Net investment income	16,138
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain (loss)	
Securities	52,577
Payment from Price Associates (Note 5)	3,601
Foreign currency transactions	(104)
Net realized gain	56,074
Change in net unrealized gain / loss	
Securities	58,841
Other assets and liabilities denominated in foreign currencies	4
Change in net unrealized gain / loss	58,845
Net realized and unrealized gain / loss	114,919
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 131,057</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

T. Rowe Price Equity Income Portfolio

(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment income	\$ 16,138	\$ 18,563
Net realized gain	56,074	64,276
Change in net unrealized gain / loss	58,845	(160,680)
Increase (decrease) in net assets from operations	131,057	(77,841)
Distributions to shareholders		
Net investment income		
Equity Income Class	(12,534)	(13,036)
Equity Income-II Class	(4,175)	(5,429)
Net realized gain		
Equity Income Class	(51,293)	(14,154)
Equity Income-II Class	(19,297)	(6,239)
Decrease in net assets from distributions	(87,299)	(38,858)
Capital share transactions*		
Shares sold		
Equity Income Class	48,411	49,168
Equity Income-II Class	41,309	47,122
Distributions reinvested		
Equity Income Class	63,828	27,191
Equity Income-II Class	23,473	11,668
Shares redeemed		
Equity Income Class	(198,210)	(242,599)
Equity Income-II Class	(140,883)	(157,608)
Decrease in net assets from capital share transactions	(162,072)	(265,058)
<b>Net Assets</b>		
Decrease during period	(118,314)	(381,757)
Beginning of period	874,862	1,256,619
<b>End of period</b>	<b>\$ 756,548</b>	<b>\$ 874,862</b>
Undistributed (overdistributed) net investment income	-	334
<b>*Share information</b>		
Shares sold		
Equity Income Class	1,710	1,690
Equity Income-II Class	1,481	1,631
Distributions reinvested		
Equity Income Class	2,242	1,004
Equity Income-II Class	826	432
Shares redeemed		
Equity Income Class	(7,061)	(8,472)
Equity Income-II Class	(5,142)	(5,518)
Decrease in shares outstanding	(5,944)	(9,233)

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

T. Rowe Price Equity Income Portfolio

December 31, 2016

T. Rowe Price Equity Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The Equity Income Portfolio (the fund) is a diversified, open-end management investment company established by the corporation. Shares of the fund currently are offered only through certain insurance companies as an investment medium for both variable annuity contracts and variable life insurance policies. The fund seeks a high level of dividend income and long-term capital growth primarily through investments in stocks. The fund has two classes of shares: the Equity Income Portfolio (Equity Income Portfolio Class) and the Equity Income Portfolio–II (Equity Income Portfolio–II Class). Equity Income Portfolio–II Class shares are sold through financial intermediaries, which it compensates for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan. Each class has exclusive voting rights on matters related solely to that class; separate voting rights on matters that relate to both classes; and, in all other respects, the same rights and obligations as the other class.

### 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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Dividends received from mutual fund investments are reflected as dividend income; capital gain distributions are reflected as realized gain/loss. Earnings on investments recognized as partnerships for federal income tax purposes reflect the tax character of such earnings. Dividend income and capital gain distributions are recorded on the ex-dividend date. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Distributions from REITs are initially recorded as dividend income and, to the extent such represent a return of capital or capital gain for tax purposes, are reclassified when such information becomes available. Income distributions are declared and paid by each class quarterly. Distributions to shareholders are recorded on the ex-dividend date. Capital gain distributions are generally 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 date of the transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is reflected as a component of security gains and losses.

**Class Accounting** Investment income, investment management and administrative expense, and realized and unrealized gains and losses are allocated to the classes based upon the relative daily net assets of each class. Equity Income–II Class pays Rule 12b-1 fees, in an amount not exceeding 0.25% of the class's average daily net assets.

**Rebates** Subject to best execution, the fund may direct certain security trades to brokers who have agreed to rebate a portion of the related brokerage commission to the fund in cash. Commission rebates are reflected as realized gain on securities in the accompanying financial statements and totaled \$5,000 for the year ended December 31, 2016.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is required for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.



## NOTE 2 - VALUATION

The fund's financial instruments are valued and each class's 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, in its judgment, materially 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.

Debt securities generally are traded in the OTC market. Securities with remaining maturities of one year or more at the time of acquisition are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service, which considers the yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Generally, debt securities are categorized in Level 2 of the fair value hierarchy; however, to the extent the valuations include significant unobservable inputs, the securities would be categorized in Level 3.

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. 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, 2016:

(\$000s)	Level 1	Level 2	Level 3	Total Value
	Quoted Prices	Significant Observable Inputs	Significant Unobservable Inputs	
Investments in Securities, except:	\$ 15,700	\$ —	\$ —	\$ 15,700
Common Stocks	703,318	29,315	—	732,633
Convertible Preferred Stocks	—	7,939	—	7,939
Corporate Bonds	—	1,493	—	1,493
Total	\$ 719,018	\$ 38,747	\$ —	\$ 757,765

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2016.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2016. 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.

(\$000s)	Beginning Balance 1/1/16	Gain (Loss) During Period	Total Sales	Ending Balance 12/31/16
Investments in Securities				
Common Stocks	\$ 9,430	\$ —	\$ (9,430)	\$ —

### NOTE 3 - 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.

**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.

**Other** Purchases and sales of portfolio securities other than short-term securities aggregated \$141,010,000 and \$378,355,000, respectively, for the year ended December 31, 2016.

### NOTE 4 - 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.

## T. Rowe Price Equity Income Portfolio

Reclassifications between income and gain relate primarily to per-share rounding of distributions. For the year ended December 31, 2016, the following reclassifications were recorded to reflect tax character (there was no impact on results of operations or net assets):

(\$000s)

Undistributed net investment income	\$	237
Undistributed net realized gain		(237)

Distributions during the years ended December 31, 2016 and December 31, 2015, were characterized for tax purposes as follows:

(\$000s)

	December 31	
	2016	2015
Ordinary income	\$ 20,833	\$ 18,465
Long-term capital gain	66,466	20,393
Total distributions	\$ 87,299	\$ 38,858

At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

(\$000s)

Cost of investments	\$ 548,362
Unrealized appreciation	\$ 231,643
Unrealized depreciation	(22,242)
Net unrealized appreciation (depreciation)	209,401
Undistributed ordinary income	362
Undistributed long-term capital gain	8,464
Paid-in capital	538,321
Net assets	\$ 756,548

The difference between book-basis and tax-basis net unrealized appreciation (depreciation) is attributable to the deferral of losses from wash sales for tax purposes. In accordance with federal tax laws applicable to investment companies, specified net 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 5 - 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). The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 0.85% 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.

The fund may invest in the T. Rowe Price Government Reserve Fund, the T. Rowe Price Treasury Reserve Fund, or the T. Rowe Price Short-Term Fund (collectively, the Price Reserve Funds), open-end management investment companies managed by Price Associates and considered affiliates of the fund. 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. 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, 2016, 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, 2016.

On June 6, 2016, Price Associates offered, and the fund's Board of Directors accepted, a voluntary payment to compensate the fund for a loss of value on its investment in Dell as a result of the fund's ineligibility to pursue an appraisal action in Delaware court due to a proxy voting error in 2013 (the Offer). The payment from Price Associates was received in cash on June 10, 2016. Subsequently, a final settlement to the appraisal action was negotiated with Dell, pursuant to which the fund received the original merger consideration plus negotiated interest. The negotiated interest, net of contingent legal fees, approximated \$0.75 per Dell share and was received by the fund on June 30; the original merger consideration was received on July 1. The settlement from Dell is reflected as realized gain/loss on securities in the accompanying financial statements. The payment from Price Associates, reduced by the settlement from Dell in accordance with the terms of the Offer, was \$3,601,000 and increased the total return by 0.53%, and 0.51% for the Equity Income Class, and Equity Income-II Class, respectively for the year ended December 31, 2016. An appeal is currently pending; the amount paid by Price Associates may be further increased or decreased in the future, in the event there is a court-determined change in the fair valuation of Dell shares on appeal, or payment is received by the fund from any other source to compensate for the loss of value on its Dell shares.

## **NOTE 6 - LITIGATION**

The fund is a named defendant or in a class of defendants in a lawsuit that the Unsecured Creditors Committee (the Committee) of the Tribune Company has filed in Delaware bankruptcy court. The Committee is seeking to recover all payments made to beneficial owners of common stock in connection with a leveraged buyout (LBO) of Tribune, including those made in connection with a 2007 tender offer in which the fund participated. A motion to dismiss was filed in this case and the district court granted the motion on January 9, 2017. The fund was named, also, as a defendant or included in a class of defendants in parallel litigation, which was dismissed by district court and affirmed on appeal by the Second Circuit Court of Appeals. This second action asserted state law constructive fraudulent transfer claims in an attempt to recover stock redemption payments made to shareholders at the time of the LBO. The plaintiffs in this second action filed a petition for a writ of certiorari with the U.S. Supreme Court. The U.S. Supreme Court removed the petition from its December 9, 2016 calendar, and the matter has not yet been rescheduled. The complaints allege no misconduct by the fund, and management has vigorously defended the lawsuits. The value of the proceeds received by the fund is \$25,684,000 (3.39% of net assets), and the fund will incur legal expenses. Management is currently assessing the case and has not yet determined the effect, if any, on the fund's net assets and results of operations.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors of T. Rowe Price Equity Series, Inc. and Shareholders of T. Rowe Price Equity Income Portfolio**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price Equity Income Portfolio (one of the portfolios constituting T. Rowe Price Equity Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, and confirmation of the underlying fund by correspondence with the transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017

### **Tax Information (Unaudited) for the Tax Year Ended 12/31/16**

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:

- \$4,361,000 from short-term capital gains,
- \$66,467,000 from long-term capital gains, subject to a long-term capital gains tax rate of not greater than 20%.

For taxable non-corporate shareholders, \$20,861,000 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, \$18,386,000 of the fund's income qualifies for the dividends-received deduction.

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

## 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 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

<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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 2001 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 2001 [187]	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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.



**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 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Brian C. Rogers, CFA, CIC (1955) 2013 [131]	Chief Investment Officer, Director, and Vice President, T. Rowe Price; Chairman of the Board, Chief Investment Officer, Director, and Vice President, T. Rowe Price Group, Inc.; Vice President, T. Rowe Price Trust Company; Director, United Technologies (January 2016 to present); President, Equity Series

\*Each inside director serves until retirement, resignation, or election of a successor.

**Officers**

<b>Name (Year of Birth) Position Held With Equity Series</b>	<b>Principal Occupation(s)</b>
Ziad Bakri, M.D., CFA (1980) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Brian W.H. Berghuis, CFA (1958) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
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.
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.
Ian D. Kelson (1956) Vice President	Director and Vice President, T. Rowe Price International; Vice President, 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
John D. Linehan, CFA (1965) Executive 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
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore
Larry J. Puglia, CFA, CPA (1960) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

**Officers (continued)**

<b>Name (Year of Birth)</b> <b>Position Held With Equity Series</b>	<b>Principal Occupation(s)</b>
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
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Charles M. Shriver, CFA (1967) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, and T. Rowe Price Trust Company
Ken D. Uematsu, CFA (1969) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Trust Company
John F. Wakeman (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Justin P. White (1981) Executive Vice President	Vice President, T. Rowe Price and 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.



100 East Pratt Street  
Baltimore, MD 21202

December 31, 2016

*Annual Report*

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# Government Money Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.

## T. Rowe Price Government Money Portfolio

### Highlights

- Money market yields increased in 2016—a welcome development for money fund investors.
- Your portfolio slightly lagged its Lipper peer group average in our 6- and 12-month reporting periods.
- With a significant asset shift into Treasury and government money funds leading to heightened demand that suppressed T-bill yields, we maintained a weighted average maturity that was somewhat longer than that of our peer group average.
- While the Fed raised rates in December, inflation remains fairly low, so we expect that the future pace of Fed tightening will be very deliberate. Money market investors should expect returns to remain subdued for some time.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price Government Money Portfolio

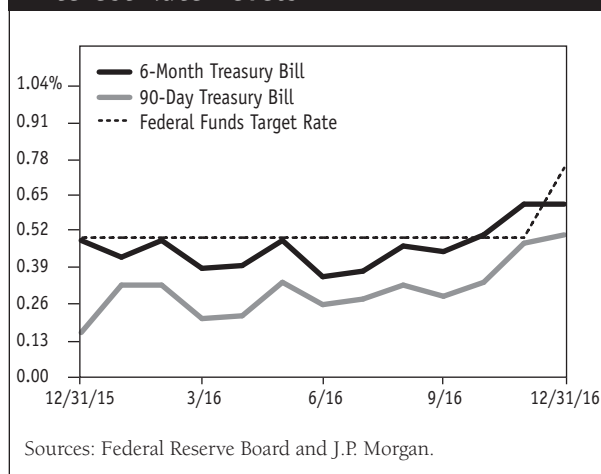
### Dear Investor

Money market yields increased in 2016—a welcome development for money fund investors. Treasury bill yields were little changed for much of the year, as the SEC's long-planned money market fund reforms, which took effect in October, prompted a broad shift in money market fund assets to U.S. government securities. However, T-bill yields rose in the last few months in anticipation of a Federal Reserve interest rate increase, which occurred on December 14. Yields of nongovernment money market securities, such as commercial paper, increased in 2016, in part because of decreased demand stemming from money fund reforms.

### Economy and Interest Rates

U.S. economic growth has picked up recently after sluggish results in the first half of the year. According to the Commerce Department's latest estimate, third-quarter gross domestic product grew at an annualized pace of 3.5%, following readings of 0.8% and 1.4% in the first and second quarters, respectively. Although the pace of employment growth has moderated, the labor market remains strong, and wage growth has accelerated. The unemployment rate was 4.7% in December, near a nine-year low. Inflation pressures have been firming in recent months as commodity prices have rebounded from early-2016 lows.

#### Interest Rate Levels



For most of 2016, the Federal Reserve kept its federal funds target rate in the 0.25% to 0.50% range it established when it raised rates in December 2015 for the first time in nine years. While the Fed was on

hold for most of the year, central bank officials have been indicating in recent months that the case for raising short-term rates “has strengthened,” thus warning the financial markets that another rate increase was approaching. This put some upward pressure on T-bill yields, but the heightened demand for T-bills ahead of the October 14 money fund reform deadline tempered their increase.

On December 14, 2016, the Federal Reserve lifted the fed funds target rate to a range of 0.50% to 0.75%—an increase of 25 basis points—citing an improving labor market and rising inflation. (One hundred basis points equal one percentage point.) The central bank's economic forecasts were little changed, but median interest rate projections for 2017 shifted slightly higher. We believe the Fed is likely to watch the effects of its latest rate increase on the economy and financial markets for several months before deciding whether to raise rates again. The Fed will also need to take into account the new president's fiscal policies and their effects on economic growth and inflation.

### Performance and Portfolio Review

The Government Money Portfolio returned 0.00% in the last six months and 0.00% for the 12-month period ended December 31, 2016. As shown in the Performance Comparison table, the portfolio slightly lagged its benchmark, the Lipper Variable Annuity Underlying Money Market Funds Average, in both periods.

#### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
Government Money Portfolio	0.00%	0.00%
Lipper Variable Annuity Underlying Money Market Funds Average	0.03	0.05

The accelerating demand for Treasury and government obligations contained T-bill yields for most of the year. Once money fund reforms took effect, and once the November elections passed, T-bill yields rose in anticipation of the Fed's December rate hike. From the end of 2015 through the end of October 2016, three-month Treasury bill yields increased from 0.16% to 0.34%, and then they rose to 0.51% at the end of 2016. Six-month T-bill yields rose from 0.49% to 0.51% through the end of October, and then they rose to 0.62% at the end of 2016. One-year Treasury bill yields, which were at

0.65% at the end of 2015, increased to 0.85% by the end of 2016. Yields of agency discount notes, because of strong demand from money fund investors, generally tracked Treasury bill yields.

### Portfolio Characteristics

Periods Ended	6/30/16	12/31/16
Price Per Share	\$1.00	\$1.00
Dividends Per Share		
6 Months	0.000	0.000
12 Months	0.000	0.000
SEC Yield (7-day simple)*	0.00%	0.00%
SEC Yield (7-day simple)– Unsubsidized	-0.15	-0.06
Weighted Average Maturity (days)	48	41
Weighted Average Life (days)	77	56

Note: The portfolio's yield more closely reflects its current earnings than does the total return.

12-month dividends may not equal the combined 6-month figures due to rounding.

The SEC yield calculation annualizes the portfolio's net investment income for the last 7 days of each period and divides that by the portfolio's net asset value at the end of the period.

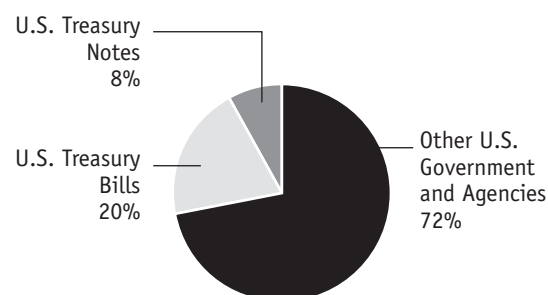
\*In an effort to maintain a zero or positive net yield for the portfolio, T. Rowe Price may voluntarily waive all or a portion of the management fee it is entitled to receive from the portfolio. This voluntary waiver would be in addition to any contractual expense ratio limitation in effect for the portfolio and may be amended or terminated at any time without prior notice. This fee waiver would have the effect of increasing the portfolio's 7-day yield. Please see the prospectus for more details.

Significant uncertainty dominated the money markets in the final months of 2016. Both money fund reform and expectations around the Fed's timing for rate hikes dominated our thinking. With a significant asset shift into Treasury and government money funds leading to heightened demand that suppressed T-bill yields, we maintained a weighted average maturity that was somewhat longer than that of our peer group average. This strategy enabled us to take advantage of rates moving gradually higher—without compromising the portfolio's high degree of liquidity—as we moved toward year-end and the likelihood of a Fed rate hike. We expect to maintain a similar weighted average maturity in the early months of 2017.

As a government money fund, the portfolio is required to invest almost exclusively in T-bills and other U.S. government securities. Of course, the portfolio is not subject to the liquidity fees and

redemption restrictions (also known as “gates”) that may be applied to nongovernment money funds during times of severe redemption activity. At the end of December, approximately 28% of portfolio assets were invested in U.S. Treasury bills and notes while other U.S. government and agency securities represented about 72%.

### Security Diversification



Based on net assets as of 12/31/16.

### Outlook

While the Fed raised rates in December, inflation remains fairly low, so we expect that the future pace of Fed tightening will be very deliberate. With this forecast, money market investors should expect returns to remain subdued for some time. In any event, we remain committed to managing a high-quality, diversified portfolio focused on liquidity and stability of principal, which we deem of utmost importance to our shareholders.

As always, thank you for investing with T. Rowe Price.

Respectfully submitted,

Joseph K. Lynagh  
Chairman of the portfolio's Investment Advisory Committee

January 20, 2017

*The committee chairman has day-to-day responsibility for managing the portfolio and works with committee members in developing and executing its investment program.*

## Risks of Investing in Government Money Market Funds

*You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.*

## Glossary

**Basis point:** One one-hundredth of one percentage point, or 0.01%.

**Federal funds target rate:** The interest rate charged on overnight loans of reserves by one financial institution to another in the United States. The Federal Reserve sets a target federal funds rate to affect the direction of interest rates.

**Gross domestic product:** The total market value of all goods and services produced in a country in a given year.

**Lipper indexes:** Fund benchmarks that consist of a small number (10 to 30) of the largest mutual funds in a particular category as tracked by Lipper Inc.

**SEC yield (7-day simple):** A method of calculating a money fund's yield by annualizing the fund's net investment income for the last seven days of each period divided by the fund's net asset value at the end of the period. Yield will vary and is not guaranteed.

**Weighted average life:** A measure of a fund's credit quality risk. In general, the longer the average life, the greater the fund's credit quality risk. The average life is the dollar-weighted average maturity of a portfolio's individual securities without taking into account interest rate readjustment dates. Money funds must maintain a weighted average life of less than 120 days.

**Weighted average maturity:** A measure of a fund's interest rate sensitivity. In general, the longer the average maturity, the greater the fund's sensitivity to interest rate changes. The weighted average maturity may take into account the interest rate readjustment dates for certain securities. Money funds must maintain a weighted average maturity of less than 60 days.



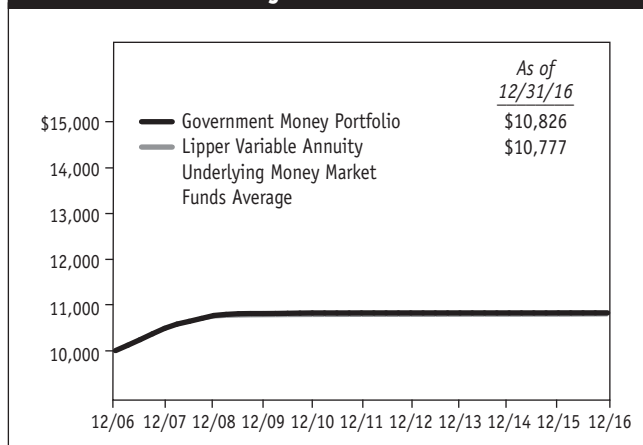
## Performance and Expenses

### T. Rowe Price Government Money 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 may include a broad-based market index and 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.

#### Government Money Portfolio



#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
Government Money Portfolio	0.00%	0.00%	0.80%

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. Investment return will vary. 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 reinvested dividends. 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.

#### Government Money Portfolio

	Beginning Account Value	Ending Account Value	Expenses Paid During Period*
	7/1/16	12/31/16	7/1/16 to 12/31/16
Actual	\$1,000.00	\$1,000.00	\$2.01
Hypothetical (assumes 5% return before expenses)	1,000.00	1,023.13	2.03

\*Expenses are equal to the portfolio's annualized expense ratio for the 6-month period (0.40%), 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 (366) to reflect the half-year period.

## Financial Highlights

T. Rowe Price Government Money Portfolio

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Investment activities					
Net investment income <sup>(1)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>
Net realized and unrealized gain/loss	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>
Total from investment activities	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>	— <sup>(3)</sup>
Distributions					
Net investment income	—	—	—	—	—
Net realized gain	—	— <sup>(3)</sup>	—	— <sup>(3)</sup>	—
Total distributions	—	— <sup>(3)</sup>	—	— <sup>(3)</sup>	—
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 1.00</b>	<b>\$ 1.00</b>	<b>\$ 1.00</b>	<b>\$ 1.00</b>	<b>\$ 1.00</b>

### Ratios/Supplemental Data

<b>Total return<sup>(4)</sup></b>	<b>0.00%<sup>(2)</sup></b>	<b>0.01%<sup>(2)</sup></b>	<b>0.00%<sup>(2)</sup></b>	<b>0.00%<sup>(2)</sup></b>	<b>0.00%<sup>(2)</sup></b>
Ratio of net expenses to average net assets	0.40% <sup>(2)</sup>	0.23% <sup>(2)</sup>	0.17% <sup>(2)</sup>	0.21% <sup>(2)</sup>	0.29% <sup>(2)</sup>
Ratio of net investment income to average net assets	0.00% <sup>(2)</sup>	0.00% <sup>(2)</sup>	0.00% <sup>(2)</sup>	0.00% <sup>(2)</sup>	0.00% <sup>(2)</sup>
Net assets, end of period (in thousands)	\$ 18,880	\$ 17,379	\$ 17,905	\$ 19,992	\$ 25,088

(1) Per share amounts calculated using average shares outstanding method.

(2) See Note 5. Includes the effect of voluntary management fee waivers and operating expense reimbursements of 0.15%, 0.32%, 0.38%, 0.34% and 0.26% of average net assets for the years ended 12/31/16, 12/31/15, 12/31/14, 12/31/13 and 12/31/12, respectively.

(3) Amounts round to less than \$0.01 per share.

(4) 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.

## Portfolio of Investments†

T. Rowe Price Government Money Portfolio

December 31, 2016

	Par	\$ Value
(Amounts in 000s)		
<b>U.S. GOVERNMENT AGENCY OBLIGATIONS 72.1% (1)</b>		
Federal Farm Credit Bank 0.49%, 3/8/17	300	300
Federal Farm Credit Bank 0.51%, 4/13/17	100	100
Federal Farm Credit Bank FRN, 0.655%, 5/5/17	500	500
Federal Home Loan Bank 0.365%, 1/27/17	500	500
Federal Home Loan Bank 0.37%, 1/4/17	600	600
Federal Home Loan Bank 0.38%, 1/5/17	150	150
Federal Home Loan Bank 0.385%, 2/1/17	300	300
Federal Home Loan Bank 0.41%, 2/24/17	100	100
Federal Home Loan Bank 0.42%, 1/6/17	700	700
Federal Home Loan Bank 0.43%, 1/25/17	368	368
Federal Home Loan Bank 0.45%, 3/24/17	125	125
Federal Home Loan Bank 0.51%, 1/13/17	300	300
Federal Home Loan Bank 0.51%, 2/8/17	800	799
Federal Home Loan Bank 0.53%, 1/9/17	150	150
Federal Home Loan Bank 0.54%, 1/31/17	325	325
Federal Home Loan Bank 0.55%, 1/3/17	399	399
Federal Home Loan Bank 0.55%, 2/22/17	120	120
Federal Home Loan Bank 0.56%, 2/21/17	300	300
Federal Home Loan Bank 0.58%, 2/17/17	200	200
Federal Home Loan Bank 0.58%, 3/17/17	515	514
Federal Home Loan Bank 0.60%, 2/9/17	300	300
Federal Home Loan Bank 0.60%, 2/13/17	300	300
Federal Home Loan Bank 0.62%, 3/21/17	200	199

	Par	\$ Value
(Amounts in 000s)		
Federal Home Loan Bank 0.67%, 4/12/17	100	100
Federal Home Loan Bank 0.69%, 4/13/17	250	249
Federal Home Loan Bank FRN, 0.641%, 8/21/17	100	100
Federal Home Loan Mortgage 0.32%, 1/17/17	500	500
Federal Home Loan Mortgage 0.335%, 1/18/17	550	550
Federal Home Loan Mortgage 0.35%, 1/9/17	290	290
Federal Home Loan Mortgage 0.37%, 2/13/17	100	100
Federal Home Loan Mortgage 0.37%, 2/14/17	240	240
Federal Home Loan Mortgage 0.39%, 2/7/17	500	500
Federal Home Loan Mortgage 0.43%, 1/19/17	1,556	1,556
Federal Home Loan Mortgage 0.46%, 2/10/17	200	200
Federal Home Loan Mortgage 0.485%, 2/28/17	400	399
Federal Home Loan Mortgage 0.56%, 3/21/17	200	200
Federal Home Loan Mortgage 5.00%, 2/16/17	250	251
Federal Home Loan Mortgage FRN, 0.396%, 4/11/17	300	300
Federal National Mortgage Assn., 0.43%, 1/3/17	175	175
Federal National Mortgage Assn., 1.25%, 1/30/17	250	250
<b>Total U.S. Government Agency Obligations (Cost \$13,609)</b>		<b>13,609</b>

### U.S. TREASURY DEBT 27.9%

U.S. Treasury Bills 0.32%, 1/5/17	300	300
U.S. Treasury Bills 0.40%, 1/12/17	725	725
U.S. Treasury Bills 0.40%, 2/2/17	200	200
U.S. Treasury Bills 0.41%, 1/26/17	235	235
U.S. Treasury Bills 0.43%, 1/19/17	120	120

# T. Rowe Price Government Money Portfolio

	Par	\$ Value
(Amounts in 000s)		
U.S. Treasury Bills		
0.44%, 2/9/17	100	100
U.S. Treasury Bills		
0.45%, 2/23/17	100	100
U.S. Treasury Bills		
0.478%, 4/27/17	100	100
U.S. Treasury Bills		
0.482%, 3/9/17	114	114
U.S. Treasury Bills		
0.49%, 4/6/17	200	200
U.S. Treasury Bills		
0.50%, 5/4/17	350	349
U.S. Treasury Bills		
0.535%, 5/11/17	225	224
U.S. Treasury Bills		
0.61%, 5/25/17	215	215
U.S. Treasury Bills		
0.62%, 5/18/17	200	200
U.S. Treasury Bills		
0.627%, 6/8/17	200	199
U.S. Treasury Bills		
0.645%, 6/22/17	330	329
U.S. Treasury Notes		
0.75%, 1/15/17	250	250
U.S. Treasury Notes		
0.875%, 4/15/17	240	240
U.S. Treasury Notes		
3.25%, 3/31/17	120	121
U.S. Treasury Notes, VR		
0.63%, 4/30/17	200	200
U.S. Treasury Notes, VR		
0.633%, 7/31/17	250	250
U.S. Treasury Notes, VR		
0.64%, 1/31/17	200	200
U.S. Treasury Notes, VR		
0.724%, 10/31/17	300	300
<b>Total U.S. Treasury Debt</b>		
<b>(Cost \$5,271)</b>		<b>5,271</b>

FRN Floating-Rate Note  
VR Variable Rate; rate shown is effective rate at period-end.

## Total Investments in Securities

100.0% of Net Assets (Cost \$18,880) **\$ 18,880**

‡ Par is denominated in U.S. dollars unless otherwise noted.

- (1) Issuer operates under a Congressional charter; its securities are neither issued nor guaranteed by the U.S. government. The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation currently operate under a federal conservatorship.

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price Government Money Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$18,880)	\$	18,880
Cash		32
Receivable for shares sold		13
Interest receivable		10
Total assets		<u>18,935</u>

### Liabilities

Investment management and administrative fees payable		44
Payable for shares redeemed		11
Total liabilities		<u>55</u>

### NET ASSETS

**\$ 18,880**

### Net Assets Consist of:

Paid-in capital applicable to 18,861,516 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized

18,880

### NET ASSETS

**\$ 18,880**

### NET ASSET VALUE PER SHARE

**\$ 1.00**

The accompanying notes are an integral part of these financial statements.

## Statement of Operations

T. Rowe Price Government Money Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Interest income	\$ 72
Expenses	
Investment management and administrative expense	102
Voluntary management fees waived	(30)
Net expenses	72
Net Investment Income	—
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ —</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

T. Rowe Price Government Money Portfolio  
(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Distributions to shareholders		
Net investment income	\$ —	\$ —
Net realized gain	—	(2)
Decrease in net assets from distributions	—	(2)
Capital share transactions*		
Shares sold	12,258	6,881
Distributions reinvested	—	2
Shares redeemed	(10,757)	(7,407)
Increase (decrease) in net assets from capital share transactions	1,501	(524)
<b>Net Assets</b>		
Increase (decrease) during period	1,501	(526)
Beginning of period	17,379	17,905
<b>End of period</b>	<b>\$ 18,880</b>	<b>\$ 17,379</b>
Undistributed net investment income	—	—

\*Capital share transactions at net asset value of \$1.00 per share

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

T. Rowe Price Government Money Portfolio

December 31, 2016

T. Rowe Price Fixed Income Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The T. Rowe Price Government Money Portfolio (the fund), formerly the T. Rowe Price Prime Reserve Portfolio, is a diversified, open-end management investment company established by the corporation. The fund seeks preservation of capital, liquidity, and, consistent with these, the highest possible current income. 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.

In accordance with amendments to rules governing money market funds under the 1940 Act (amendments) and as approved by the fund's Board, the fund intends to operate as a government money market fund. On May 1, 2016, the fund adopted a policy to, under normal conditions, invest at least 80% of its net assets in U.S. government securities and repurchase agreements that are collateralized by U.S. government securities. On October 14, 2016, the fund also adopted a policy to invest at least 99.5% of its total assets in cash, U.S. government securities, and/or repurchase agreements that are collateralized by U.S. government securities or cash. The fund will generally continue to value its securities at amortized cost and transact at a stable \$1.00 net asset value per share. The amendments do not require government money market funds to, and the fund has no intention to voluntarily, impose liquidity fees on redemptions or temporarily suspend redemptions.

### 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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Paydown gains and losses are recorded as an adjustment to interest income. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Income distributions are declared daily and paid monthly. Distributions to shareholders are recorded on the ex-dividend date. Capital gain distributions are generally declared and paid by the fund annually.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is required for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.

### 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. 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. 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. 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.

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 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. 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. For example, securities held by a money market fund are generally high quality and liquid; however, they are reflected as Level 2 because the inputs used to determine fair value are not quoted prices in an active market.

In accordance with Rule 2a-7 under the 1940 Act, the fund values its securities at amortized cost, which approximates fair value. Securities for which amortized cost is deemed not to reflect fair value are stated at fair value as determined in good faith by the Valuation Committee. On December 31, 2016, all of the fund's financial instruments were classified as Level 2 in the fair value hierarchy.

### NOTE 3 - 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.

**Mortgage-Backed Securities** The fund may invest in mortgage-backed securities (MBS or pass-through certificates) that represent an interest in a pool of specific underlying mortgage loans and entitle the fund to the periodic payments of principal and interest from those mortgages. MBS may be issued by government agencies or corporations, or private issuers. Most MBS issued by government agencies are guaranteed; however, the degree of protection differs based on the issuer. MBS, are sensitive to changes in economic conditions that affect the rate of prepayments and defaults on the underlying mortgages; accordingly, the value, income, and related cash flows from MBS may be more volatile than other debt instruments.

### NOTE 4 - 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 year ended December 31, 2015 were characterized for tax purposes as \$2,000 of ordinary income. There were no distributions in the year ended December 31, 2016. At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

(\$000s)	
Cost of investments	\$ 18,880
Paid-in capital	\$ 18,880
Net assets	\$ 18,880

#### NOTE 5 - 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). The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 0.55% 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.

Price Associates may voluntarily waive all or a portion of its management fee and reimburse operating expenses to the extent necessary for the fund to maintain a zero or positive net yield (voluntary waiver). Any amounts waived/paid by Price Associates under this voluntary agreement are not subject to repayment by the fund. Price Associates may amend or terminate this voluntary arrangement at any time without prior notice. For the year ended December 31, 2016, expenses waived/repaid totaled \$30,000.

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, 2016, the fund had no purchases or sales cross trades with other funds or accounts advised by Price Associates.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors of T. Rowe Price Fixed Income Series, Inc. and Shareholders of T. Rowe Price Government Money Portfolio (formerly known as T. Rowe Price Prime Reserve Portfolio)**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price Government Money Portfolio (formerly known as T. Rowe Price Prime Reserve Portfolio) (one of the portfolios constituting T. Rowe Price Fixed Income Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

## About the Portfolio's Directors and Officers

Your portfolio is overseen by a Board of Directors (Board) that meets regularly to review a wide variety of matters affecting or potentially affecting the portfolio, including performance, investment programs, compliance matters, advisory fees and expenses, service providers, and business and regulatory affairs. The Board elects the portfolio's officers, who are listed in the final table. At least 75% of the Board's members are independent 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 portfolio directors and is available without charge by calling a T. Rowe Price representative at 1-800-638-5660.

### Independent 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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 1994 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2013 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2013 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 1994 [187]	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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.

**Inside Director**

**Name (Year of Birth)**  
**Year Elected\* [Number of**  
**T. Rowe Price Portfolios**  
**Overseen]**

**Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies**  
**During the Past Five Years**

Edward C. Bernard (1956) 2006 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Edward A. Wiese, CFA (1959) 2015 [56]	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, and T. Rowe Price Trust Company; President, Fixed Income Series

\*Inside director serves until retirement, resignation, or election of a successor.

**Officers**

**Name (Year of Birth)**  
**Position Held With Fixed Income Series**

**Principal Occupation(s)**

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.
Steven G. Brooks, CFA (1954) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Jason T. Collins (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
M. Helena Condez (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Levent Demirekler (1974) Vice President	Vice President, T. Rowe Price
G. Richard Dent (1960) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Stephanie A. Gentile, CFA (1956) Vice President	Vice President, T. Rowe Price; formerly, Director, Credit Suisse Securities (to 2014)
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.
Michael J. Grogan, CFA (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Geoffrey M. Hardin (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Charles B. Hill, CFA (1961) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Keir R. Joyce, CFA (1972) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Steven M. Kohlenstein (1987) Assistant Vice President	Assistant Vice President, T. Rowe Price
Paul J. Krug, CPA (1964) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

**Officers (continued)**

<b>Name (Year of Birth)</b> <b>Position Held With Fixed Income Series</b>	<b>Principal Occupation(s)</b>
Marcy M. Lash (1963) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Alan D. Levenson, Ph.D. (1958) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Joseph K. Lynagh, CFA (1958) Executive 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
Andrew C. McCormick (1960) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Cheryl A. Mickel, CFA (1967) Vice President	Director and Vice President, T. Rowe Price Trust Company; Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore
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
Vernon A. Reid, Jr. (1954) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Michael F. Reinartz (1973) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Chen Shao (1980) Vice President	Vice President, T. Rowe Price
Douglas D. Spratley, CFA (1969) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Robert D. Thomas (1971) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International
John D. Wells (1960) Vice President	Vice President, T. Rowe Price and 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.

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100 East Pratt Street  
Baltimore, MD 21202

December 31, 2016

*Annual Report*

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# International Stock Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.

## T. Rowe Price International Stock Portfolio

### Highlights

- International stocks generated modest gains for U.S.-based investors in the past year as the U.S. dollar strengthened versus most other currencies.
- The International Stock Portfolio returned 2.13%, outperforming its Lipper peer group but slightly trailing its MSCI benchmark for the 12-month period ended December 31, 2016.
- We remain focused on buying and holding companies with durable franchises that can grow their earnings and cash flow over the long term.
- We are finding high-quality companies with attractive growth prospects, although economic growth in many markets remains modest.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price International Stock Portfolio

## Dear Investor

International stocks were volatile over the last 12 months but ended our fiscal year with a small gain. Currency translation detracted from the returns on international investments for U.S. dollar-based investors. News of slowing economic growth in China, the UK's decision to exit the European Union (EU), and the unexpected victory of Donald Trump in the U.S. presidential election led to bouts of stock market volatility. Investors also worried about rising U.S. interest rates and the Federal Reserve's timing of potential rate hikes. We believe that the portfolio is well positioned to generate long-term growth. We remain focused on our bottom-up stock selection approach to investing—identifying companies that are taking market share and outgrowing their peers.

## Performance Review

### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
International Stock Portfolio	2.83%	2.13%
MSCI All Country World Index ex USA	5.72	5.01
Lipper Variable Annuity Underlying International Multi-Cap Growth Funds Average	1.17	-1.17

The International Stock Portfolio returned 2.13% in 2016. As shown in the Performance Comparison table, your portfolio outperformed its Lipper peer group average for the year but underperformed the MSCI All Country World Index ex USA. Performance versus the MSCI index benefited from stock selection in the consumer discretionary, information technology, and consumer staples sectors. Stock selection in the financials and industrials and business services sectors hurt relative results. Sector allocation decisions detracted from relative performance, mostly because of our overweight in health care and underweight to energy.

From a regional perspective, stock selection in Japan and developed Europe (excluding the UK), which together accounted for almost half of the portfolio, benefited relative performance. Our holdings in North America posted strong absolute returns. The portfolio's worst absolute and relative results, due to poor stock selection and an overweight allocation, were UK-based holdings.

Your portfolio compared favorably with its competitors over the long term. Lipper ranked the International Stock Portfolio in the top quintile of its variable annuity underlying international multi-cap growth funds universe for the three-year period ended December 31, 2016. (Based on cumulative total return, Lipper ranked the International Stock Portfolio 24 of 86, 12 of 85, 41 of 81, and 23 of 61 portfolios in the variable annuity underlying international multi-cap growth funds universe for the 1-, 3-, 5-, and 10-year periods ended December 31, 2016, respectively. *Past performance cannot guarantee future results.*)

## Market Environment

### Market Performance

Periods Ended 12/31/16 (In U.S. Dollar Terms)	Total Return	
	6 Months	12 Months
United States	7.75%	11.61%
France	9.67	6.02
Germany	11.62	3.50
Japan	8.60	2.73
China	5.90	1.11
United Kingdom	3.08	-0.04
India	-2.54	-1.43
Switzerland	-1.30	-4.04

Source: RIMES Online, using MSCI indexes.

Stocks endured several periods of heightened volatility but ultimately recovered. In Europe, markets tumbled in the immediate aftermath of the UK's surprising decision to leave the EU. Although stocks recovered quickly, the British pound remained under pressure, and Brexit's longer-term impact is uncertain. The UK's withdrawal process is expected to commence in 2017, and an orderly process would help to ease market anxieties. The uncertainty around the pending negotiations, coupled with the publicity and the highly political nature of the process, has led to persistent concerns over economic growth in Europe even though the data to date have been largely resilient.

The economic situation in Japan remains murky—three years of ultra-loose monetary policy and attempts at structural reforms have produced mixed results. While inflation targets have been consistently missed and revised, unemployment in Japan remains low and corporate profitability high. Japanese policymakers have, in general, been reticent to expend adequate political capital on key (and unpopular) areas of

structural reform, including immigration policy, Social Security reform, and health care expenditures. Instead, the burden to lift the economy out of stagnation has fallen squarely on the shoulders of the Bank of Japan (BoJ) via its program of negative interest rates and quantitative easing, despite questionable efficacy thus far. As we exit 2016, questions around the ability and willingness of the BoJ to do more to stimulate demand are growing, while the government's desire to launch a major fiscal program remains uncertain.

Emerging markets generally outperformed developed markets in 2016. However, regional and country returns varied markedly, and the asset class was notably weak after the U.S. presidential election. Many of the markets that performed best during 2016, such as Brazil, South Africa, and Russia, benefited from stabilization in commodity prices and low starting valuations. We remained extremely selective in our emerging markets stock holdings and used the rebound in certain markets to pare our positions somewhat. Despite the recent rally in commodity prices and the strong gains across the broad emerging markets universe, we think that near-term caution in some of these markets is warranted.

Much of the rebound in commodity prices has been driven by a brighter view of China's growth, although we continue to be concerned by the high level of government stimulus and debt financing that is driving much of that growth, along with signs that the consumer remains sluggish. Economies that depend on commodity exports to generate growth but show low levels of investment and structural reform, such as Russia and South Africa, may remain challenged to show strong consistent economic growth in the future, in our view.

## Portfolio Review

Our information technology holdings were the strongest absolute performance contributors for the 12 months ended December 31, 2016. Over the reporting period, we made select additions to our overweight allocation as we found solid, attractively valued growth companies that we felt were overly punished in the early-2016 sell-off. The portfolio's best contributor was **Taiwan Semiconductor Manufacturing**. The stock rallied after the company announced that it would hike its dividend and, subsequently, on good earnings and higher revenue guidance. We believe that the company will continue to increase its dividend as its capital needs decline.

**ASML Holding** and **NXP Semiconductors**, also operating in the semiconductor industry, generated solid gains. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

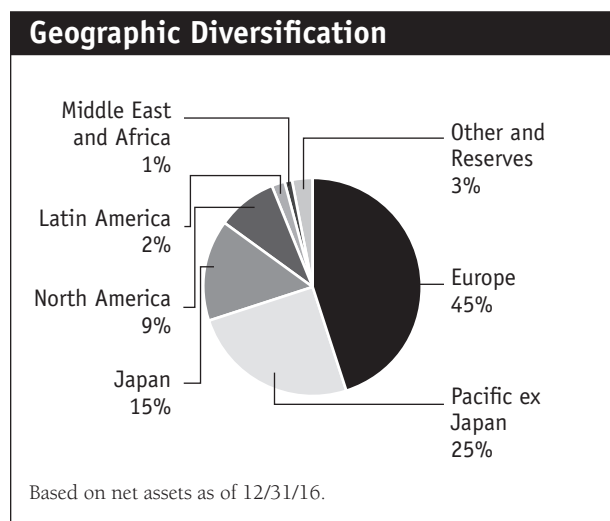
## Sector Diversification

	Percent of Net Assets	
	6/30/16	12/31/16
Financials	18.0%	18.5%
Health Care	13.6	15.0
Information Technology	14.4	14.1
Industrials and Business Services	14.5	13.1
Consumer Staples	10.1	12.4
Consumer Discretionary	12.0	10.2
Telecommunication Services	4.9	4.6
Materials	4.5	4.3
Energy	3.0	3.0
Utilities	1.6	1.6
Real Estate	1.2	0.7
Other and Reserves	2.2	2.5
Total	100.0%	100.0%

Historical weightings reflect current industry/sector classifications.

Our Internet software and services holdings, including longtime investments **Tencent Holdings** and **NAVER**, generated strong performance. NAVER is a South Korean company that operates the country's leading search engine and owns an 80% stake in **LINE**, a leading mobile messaging platform in several Asian countries. NAVER has continued to impress us over the years of our ownership with its ability to sustain growth in its domestic search business and create valuable new franchises internally, such as LINE. It also has developed a social media property called SNOW, which we hope will become a new growth driver for NAVER. We participated in the LINE initial public offering as well but eliminated our position for a profit once the stock reached our assessment of fair value.

Our materials and energy sector holdings produced solid gains over the past 12 months. Several notable contributors included **South32** and **Syngenta** in the materials sector and **Canadian Natural Resources** and **Woodside Petroleum** in the energy sector. South32, a spinout from BHP Billiton, is our only direct exposure to the challenging mining industry. The company occupies a unique position within the segment as a potential acquirer with net cash on its balance sheet. We are optimistic that over time this balance sheet firepower, in an industry where many players face difficult times, will be deployed and create value for shareholders.



Unfortunately, we held several significant detractors that offset good stock selection in other areas of the portfolio. Many of our poorest-performing holdings were in the financials, health care, and industrials and business services sectors. The performance of our capital markets and bank holdings was poor, and we eliminated several of the largest detractors, including **Credit Suisse**, **Barclays**, and **Standard Chartered**. In general, our research indicated that achieving an attractive return on equity over the near term would be a challenge for these companies, and we have largely redeployed the proceeds into other holdings in the sector with more attractive growth prospects. **GAM Holding**, **Royal Bank of Scotland**, and **Lloyds Banking Group** were also among the biggest detractors, with Brexit and the subsequent weakening of the British pound playing a major role in the underperformance of the latter two. Although we constantly test our assumptions and views, we believe that in the medium term these financial companies are capable of generating strong returns and that our patience will be rewarded.

In the health care sector, our pharmaceutical holdings, especially **Bayer**, **Valeant Pharmaceuticals International**, and **Novartis**, declined steeply and were the largest drag on returns. Bayer is our largest holding in the sector, and although the company has continued to deliver good results, its solid business execution has been overshadowed by the pending acquisition of Monsanto. This strategic move will lead to a greater focus on agricultural chemicals and less on pharmaceuticals. The prospect of a long and complex regulatory approval process and the announcement that, as a result of the deal, Bayer will seek to raise a significant amount of new equity have pushed the share price well below what we view as the intrinsic value of the business, with or without Monsanto. As these issues are resolved, we expect to see Bayer's share price trade more in line with its fundamentals.

Industrials and business services is a broad and diversified sector. **Mitsubishi Electric** and **Schneider Electric** were among our best contributors, but their strong gains were overshadowed by losses in **easyJet** and **Capita**, two of our worst performers in the reporting period. EasyJet suffered primarily from increased competition on many of its routes as well as from concerns about the impact of Brexit on its business. Capita, a UK-based diversified services provider to the government and private sector, was buffeted by a slowdown in new contracts as customers delayed decision-making due to Brexit.

Coupled with a cost overrun on an important contract, Capita's stock plunged when management warned that profits would fall below previously expected levels and returns would remain under pressure. While the Brexit uncertainty may linger for some time and continue to depress Capita's share price, we feel that its history of strong execution, tight cost control, and strong free cash flow generation will allow the company to weather this storm. Our view is that although the timing is uncertain, the shares should see a strong rerating from the currently depressed level once decision-making among its customers normalizes.

We will employ hedging instruments based on those that provide the best combination of low cost, liquidity, and protection against a broad downturn in stocks or currencies. The portfolio's exposure to derivatives contributed to absolute performance during the reporting period. Currency forward contracts were the principal contributors.

## Outlook

Although we feel confident that economic growth will remain modestly positive, share prices appear to offer only modest upside in many cases. From a top-down perspective, we are monitoring two major potential areas of impact on market and sector performance:

First, we wish we could say that the next 12 months will likely bring fewer headline risk events than the prior year; however, that seems unlikely to be the case. In Europe, there is political uncertainty pertaining to key upcoming elections in Germany, France, the Netherlands, and possibly Italy. Structural issues remain elevated, with many countries still having high levels of debt and unemployment. Additionally, the UK is expected to begin the formal process of exiting the European Union this spring. Despite these headline risks, underlying growth in Europe has remained reasonable, and we continue to find good bottom-up investment opportunities.



Second, a significant question facing markets over the next 12 months is whether inflation, after numerous fits and starts over the past few years, is finally starting to see broad-based acceleration. Following many years of low rates and deflation fears, even a shift in the market to pricing in modest positive inflation could have a profound effect on sector valuations. With unemployment low in most developed markets and wages on the increase, it seems likely to us that at a minimum the need for further negative rates has been reduced for the time being. President Trump's proposed policies appear to be pro-growth and inflationary, and bonds have come under selling pressure. Given the uncertainties, we will remain vigilant and will closely monitor inflation expectations.

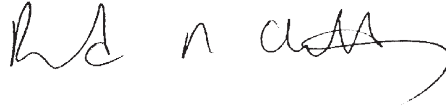
We are focused on finding high-quality companies that we feel offer "mispriced growth," usually due to short-term headwinds obscuring a positive longer-term growth outlook. Our goal is to invest in a contrarian fashion around long-term winning businesses. Given the market swings of the past six months, this has allowed us to add to both cyclical sectors, such as financials, and defensive sectors, such as health care, as the market's view of global growth has oscillated between concern and complacency.

From a regional perspective, our views have not shifted much. We retain a longstanding underweight in Japan due to few bottom-up opportunities to invest in attractive growth companies, while we remain overweight to the rest of Asia. Within emerging markets, we have pared our exposure in stocks and countries where the strong rebound over the past 12 months has made the risk/reward trade-off more balanced. On the other hand, we have added to emerging markets that have lagged in the commodity-driven rally, such as South Korea, where we are finding good risk-adjusted opportunities.

As bottom-up stock pickers, we are not trying to predict events that are inherently unpredictable and instead remain focused on finding attractively priced stocks of companies we think will continue to post durable growth over the coming years. We utilize a top-down overlay to complement that stock selection process, but we continue to believe our best insights will come at the company level, rather than in trying to anticipate headlines.

As always, we will continue to work diligently on your behalf. Thank you for your support and confidence in T. Rowe Price.

Respectfully submitted,



Richard N. Clattenburg  
*Chairman of the Investment Advisory Committee*

January 9, 2017

*The committee chairman has day-to-day responsibility for managing the portfolio and works with committee members in developing and executing its investment program.*

## Risks of International Investing

Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. Funds investing in a single country or in a limited geographic region tend to be riskier than more diversified funds. 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.

## Glossary

**Lipper averages:** The averages of available mutual fund performance returns for specified periods in categories defined by Lipper Inc.

**MSCI All Country World Index ex USA:** An index that measures equity market performance of developed and emerging countries, excluding the U.S.

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.

## Portfolio Highlights

### Twenty-Five Largest Holdings

Company	Country	Percent of Net Assets 12/31/16
Nestle	Switzerland	2.5%
Bayer	Germany	2.3
Priceline	United States	2.3
CK Hutchison Holdings	Hong Kong	2.2
Taiwan Semiconductor Manufacturing	Taiwan	1.7
Roche Holding	Switzerland	1.7
AIA Group	Hong Kong	1.6
Nippon Telegraph & Telephone	Japan	1.5
Vodafone	United Kingdom	1.4
Tencent Holdings	China	1.4
Astellas Pharma	Japan	1.4
Sampo	Finland	1.3
Shire	United States	1.3
Liberty Global	United Kingdom	1.3
Japan Tobacco	Japan	1.3
Mitsubishi Electric	Japan	1.3
Seven & i Holdings	Japan	1.2
Sumitomo	Japan	1.2
Housing Development Finance	India	1.2
Tokio Marine Holdings	Japan	1.2
Fresenius	Germany	1.2
Sky	United Kingdom	1.1
BNP Paribas	France	1.1
Aviva	United Kingdom	1.1
Philip Morris International	United States	1.1
Total		36.9%

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.

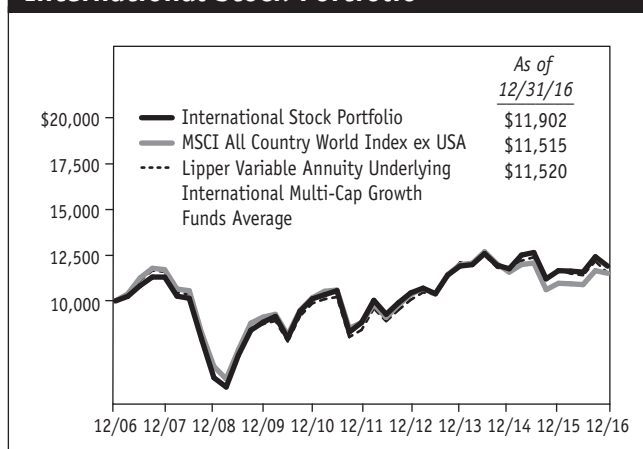
## Performance and Expenses

### T. Rowe Price International Stock 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 may include a broad-based market index and 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.

#### International Stock Portfolio



#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
International Stock Portfolio	2.13%	6.19%	1.76%

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. 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	Ending Account Value	Expenses Paid During Period*
	7/1/16	12/31/16	7/1/16 to 12/31/16
Actual	\$1,000.00	\$1,028.30	\$5.35
Hypothetical (assumes 5% return before expenses)	1,000.00	1,019.86	5.33

\*Expenses are equal to the portfolio's annualized expense ratio for the 6-month period (1.05%), 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 (366) to reflect the half-year period.

## Financial Highlights

T. Rowe Price International Stock Portfolio

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 14.67	\$ 15.26	\$ 15.72	\$ 13.90	\$ 11.88
Investment activities					
Net investment income <sup>(1)</sup>	0.17	0.14	0.15	0.17	0.15
Net realized and unrealized gain / loss	0.14	(0.28)	(0.35)	1.78	2.04
Total from investment activities	0.31	(0.14)	(0.20)	1.95	2.19
Distributions					
Net investment income	(0.16)	(0.15)	(0.17)	(0.13)	(0.17)
Net realized gain	(0.55)	(0.30)	(0.09)	—	—
Total distributions	(0.71)	(0.45)	(0.26)	(0.13)	(0.17)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 14.27</b>	<b>\$ 14.67</b>	<b>\$ 15.26</b>	<b>\$ 15.72</b>	<b>\$ 13.90</b>

### Ratios/Supplemental Data

<b>Total return<sup>(2)</sup></b>	<b>2.13%</b>	<b>(0.90)%</b>	<b>(1.24)%</b>	<b>14.05%</b>	<b>18.44%</b>
Ratio of total expenses to average net assets	1.05%	1.05%	1.05%	1.05%	1.05%
Ratio of net investment income to average net assets	1.15%	0.88%	0.94%	1.13%	1.16%
Portfolio turnover rate	39.5%	37.3%	45.3%	53.1%	41.3%
Net assets, end of period (in thousands)	\$ 310,621	\$ 305,031	\$ 329,646	\$ 355,918	\$ 300,353

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</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.

## Portfolio of Investments†

T. Rowe Price International Stock Portfolio

December 31, 2016

	Shares	\$ Value
(Cost and value in \$000s)		
<b>AUSTRALIA 3.6%</b>		
<b>Common Stocks 3.6%</b>		
Amcor	286,753	3,089
Brambles	206,339	1,841
CSL	13,559	979
James Hardie Industries, GDR	49,667	786
South32	1,170,412	2,310
Woodside Petroleum	102,735	2,306
<b>Total Australia</b> <b>(Cost \$8,283)</b>		<b>11,311</b>
<b>BELGIUM 0.5%</b>		
<b>Common Stocks 0.5%</b>		
KBC	25,162	1,558
<b>Total Belgium</b> <b>(Cost \$1,257)</b>		<b>1,558</b>
<b>BRAZIL 1.5%</b>		
<b>Common Stocks 1.2%</b>		
Bb Seguridade Participacoes	229,764	1,989
Tim Participacoes ADR (USD)	159,200	1,878
		<b>3,867</b>
<b>Preferred Stocks 0.3%</b>		
Itau Unibanco Holdings	80,096	826
		<b>826</b>
<b>Total Brazil</b> <b>(Cost \$5,096)</b>		<b>4,693</b>
<b>CANADA 2.2%</b>		
<b>Common Stocks 2.2%</b>		
Alimentation Couche-Tard Series B	35,321	1,601
Canadian Natural Resources	88,600	2,824

	Shares	\$ Value
(Cost and value in \$000s)		
Canadian Pacific Railway	17,233	2,459
<b>Total Canada</b> <b>(Cost \$6,420)</b>		<b>6,884</b>
<b>CHINA 5.4%</b>		
<b>Common Stocks 4.7%</b>		
58.com, ADR (USD) (1)(2)	25,300	708
Alibaba Group Holding ADR (USD) (2)	22,200	1,949
Baidu, ADR (USD) (2)	9,300	1,529
China Mengniu Dairy (HKD)	1,135,000	2,170
China Overseas Land & Investment (HKD)	878,000	2,316
Ctrip.com International ADR (USD) (2)	37,100	1,484
Tencent Holdings (HKD)	179,500	4,357
		<b>14,513</b>
<b>Common Stocks - China A shares 0.6%</b>		
Kweichow Moutai (CNH)	36,351	1,745
		<b>1,745</b>
<b>Convertible Preferred Stocks 0.1%</b>		
Xiaoju Kuaizhi, Class A-17 Acquisition Date: 10/19/15, Cost \$343 (USD) (2)(3)(4)	12,518	478
		<b>478</b>
<b>Total China</b> <b>(Cost \$11,391)</b>		<b>16,736</b>
<b>DENMARK 0.5%</b>		
<b>Common Stocks 0.5%</b>		
GN Store Nord	78,858	1,633
<b>Total Denmark</b> <b>(Cost \$1,679)</b>		<b>1,633</b>

## T. Rowe Price International Stock Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
<b>FINLAND 1.3%</b>		
<b>Common Stocks 1.3%</b>		
Sampo, A Shares	92,880	4,153
<b>Total Finland</b> <b>(Cost \$4,033)</b>		<b>4,153</b>
<b>FRANCE 5.3%</b>		
<b>Common Stocks 5.3%</b>		
Air Liquide	23,704	2,631
Airbus	31,993	2,112
BNP Paribas	54,604	3,478
Dassault Aviation	1,682	1,877
Sanofi	38,169	3,087
Schneider Electric	45,944	3,193
<b>Total France</b> <b>(Cost \$15,314)</b>		<b>16,378</b>
<b>GERMANY 6.7%</b>		
<b>Common Stocks 6.7%</b>		
Bayer	68,297	7,125
Beiersdorf	9,301	789
Brenntag	18,597	1,031
Fresenius	46,608	3,641
Linde	13,639	2,236
Merck	16,725	1,745
Scout24 Holding (2)	32,741	1,165
Telefonica Deutschland Holding	351,130	1,500
Wirecard (1)	33,400	1,436
<b>Total Germany</b> <b>(Cost \$15,908)</b>		<b>20,668</b>
<b>HONG KONG 5.2%</b>		
<b>Common Stocks 5.2%</b>		
AIA Group	887,000	4,964
CK Hutchison Holdings	591,884	6,682
Jardine Matheson Holdings (USD)	55,800	3,078

	Shares	\$ Value
(Cost and value in \$000s)		
Samsonite International	488,100	1,388
<b>Total Hong Kong</b> <b>(Cost \$14,250)</b>		<b>16,112</b>
<b>INDIA 5.0%</b>		
<b>Common Stocks 5.0%</b>		
Axis Bank	363,268	2,402
Housing Development Finance	200,864	3,730
Infosys	138,020	2,053
NTPC Limited	1,307,377	3,171
Power Grid Corp of India	643,451	1,738
Tata Consultancy	72,344	2,516
<b>Total India</b> <b>(Cost \$11,842)</b>		<b>15,610</b>
<b>INDONESIA 1.5%</b>		
<b>Common Stocks 1.5%</b>		
Bank Central Asia	2,458,600	2,816
Sarana Menara Nusantara (2)	6,625,400	1,761
<b>Total Indonesia</b> <b>(Cost \$3,173)</b>		<b>4,577</b>
<b>ISRAEL 0.2%</b>		
<b>Common Stocks 0.2%</b>		
Mobileye (USD) (2)	16,076	613
<b>Total Israel</b> <b>(Cost \$425)</b>		<b>613</b>
<b>ITALY 0.7%</b>		
<b>Common Stocks 0.7%</b>		
Banca Mediolanum	298,425	2,144
<b>Total Italy</b> <b>(Cost \$2,330)</b>		<b>2,144</b>
<b>JAPAN 14.9%</b>		
<b>Common Stocks 14.9%</b>		
Air Water	67,200	1,210
Astellas Pharma	313,200	4,341
Chugai Pharmaceutical	67,200	1,925

## T. Rowe Price International Stock Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
Credit Saison	48,000	854
CyberAgent	61,900	1,527
FANUC	10,300	1,742
Inpex	147,400	1,472
Japan Tobacco	118,900	3,906
Kansai Paint	53,200	978
Koito Manufacturing	37,300	1,970
Mitsubishi Electric	280,900	3,905
Nippon Telegraph & Telephone	113,600	4,775
Olympus	57,200	1,972
Seven & i Holdings	101,300	3,855
Sumitomo	325,100	3,819
Suzuki Motor	46,000	1,615
Tokio Marine Holdings	89,600	3,664
Yahoo! Japan (1)	750,400	2,880
<b>Total Japan</b> <b>(Cost \$40,515)</b>		<b>46,410</b>
<b>MALAYSIA 0.4%</b>		
<b>Common Stocks 0.4%</b>		
Astro Malaysia Holdings	2,206,300	1,278
<b>Total Malaysia</b> <b>(Cost \$1,981)</b>		<b>1,278</b>
<b>MEXICO 0.9%</b>		
<b>Common Stocks 0.9%</b>		
Grupo Financiero Santander Mexico, Series B, ADR (USD)	364,770	2,623
<b>Total Mexico</b> <b>(Cost \$3,438)</b>		<b>2,623</b>
<b>NETHERLANDS 3.4%</b>		
<b>Common Stocks 3.4%</b>		
Altice, Class A (2)	131,452	2,600
ASML Holding	24,767	2,775
ING Groep	173,629	2,444
NXP Semiconductors (USD) (2)	28,200	2,764
<b>Total Netherlands</b> <b>(Cost \$4,876)</b>		<b>10,583</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>SOUTH KOREA 2.7%</b>		
<b>Common Stocks 2.7%</b>		
LG Household & Health Care	3,603	2,553
NAVER	3,963	2,538
Samsung Electronics	2,242	3,313
<b>Total South Korea</b> <b>(Cost \$6,452)</b>		<b>8,404</b>
<b>SPAIN 2.6%</b>		
<b>Common Stocks 2.6%</b>		
Amadeus IT, A Shares	68,928	3,131
Banco Bilbao Vizcaya Argentaria	298,215	2,012
Grifols, ADR (USD)	189,500	3,045
<b>Total Spain</b> <b>(Cost \$7,819)</b>		<b>8,188</b>
<b>SWEDEN 2.9%</b>		
<b>Common Stocks 2.9%</b>		
Assa Abloy, B Shares	34,947	648
Hexagon, B Shares	71,258	2,541
Svenska Cellulosa, B Shares	117,765	3,321
Svenska Handelsbanken A Shares	184,636	2,565
<b>Total Sweden</b> <b>(Cost \$7,810)</b>		<b>9,075</b>
<b>SWITZERLAND 6.5%</b>		
<b>Common Stocks 6.5%</b>		
GAM Holding	97,343	1,127
Julius Baer	75,183	3,338
Nestle	110,154	7,901
Novartis	34,392	2,502
Roche Holding	23,096	5,262
<b>Total Switzerland</b> <b>(Cost \$20,377)</b>		<b>20,130</b>

## T. Rowe Price International Stock Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
<b>TAIWAN 1.7%</b>		
<b>Common Stocks 1.7%</b>		
Taiwan Semiconductor Manufacturing	940,000	5,264
<b>Total Taiwan (Cost \$2,785)</b>		<b>5,264</b>
<b>THAILAND 0.5%</b>		
<b>Common Stocks 0.5%</b>		
CP ALL	953,300	1,664
<b>Total Thailand (Cost \$1,042)</b>		<b>1,664</b>
<b>TURKEY 0.4%</b>		
<b>Common Stocks 0.4%</b>		
Turkiye Garanti Bankasi	572,093	1,237
<b>Total Turkey (Cost \$1,808)</b>		<b>1,237</b>
<b>UNITED ARAB EMIRATES 0.9%</b>		
<b>Common Stocks 0.9%</b>		
DP World (USD)	155,547	2,724
<b>Total United Arab Emirates (Cost \$935)</b>		<b>2,724</b>
<b>UNITED KINGDOM 16.0%</b>		
<b>Common Stocks 16.0%</b>		
Aviva	579,563	3,458
British American Tobacco	52,117	2,959
Burberry	103,340	1,905
Capita	381,768	2,499
ConvaTec (2)	365,408	1,053
easyJet	67,783	838
Experian	123,524	2,391
Liberty Global Class A (USD) (2)	30,400	930
Liberty Global Series C (USD) (2)	104,100	3,092
Liberty Global Plc LiLAC Class C (USD) (2)	51,068	1,081
LivNova (USD) (2)	34,245	1,540

	Shares	\$ Value
(Cost and value in \$000s)		
Lloyds Banking Group	2,379,485	1,830
Prudential	110,775	2,210
Reckitt Benckiser	29,636	2,505
Royal Bank of Scotland (2)	718,668	1,985
Royal Dutch Shell, B Shares	99,121	2,828
Shire	72,560	4,112
Sky	288,801	3,514
Smith & Nephew	186,048	2,772
Vodafone	1,820,338	4,477
WPP	76,844	1,718
<b>Total United Kingdom (Cost \$52,112)</b>		<b>49,697</b>
<b>UNITED STATES 4.1%</b>		
<b>Common Stocks 4.1%</b>		
MasterCard, Class A	22,100	2,282
Philip Morris International	37,000	3,385
Priceline (2)	4,777	7,003
<b>Total United States (Cost \$8,445)</b>		<b>12,670</b>
<b>SHORT-TERM INVESTMENTS 2.3%</b>		
<b>Money Market Funds 2.3%</b>		
T. Rowe Price Government Reserve Fund, 0.43% (5)(6)	7,054,735	7,055
<b>Total Short-Term Investments (Cost \$7,055)</b>		<b>7,055</b>
<b>SECURITIES LENDING COLLATERAL 0.9%</b>		
<b>Investments in a Pooled Account through Securities Lending Program with JPMorgan Chase Bank 0.9%</b>		
<b>Short-Term Funds 0.9%</b>		
T. Rowe Price Short-Term Fund, 0.61% (5)(6)	271,653	2,717
Total Investments through Securities Lending Program with JPMorgan Chase Bank		<b>2,717</b>
<b>Total Securities Lending Collateral (Cost \$2,717)</b>		<b>2,717</b>



	Shares	\$ Value
(Cost and value in \$000s)		

**Total Investments in Securities**

100.7% of Net Assets (Cost \$271,568)      **\$ 312,789**

† 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) All or a portion of this security is on loan at December 31, 2016 -- total value of such securities at period-end amounts to \$2,604. See Note 4.
- (2) Non-income producing
- (3) 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 \$478 and represents 0.2% of net assets.
- (4) Level 3 in fair value hierarchy. See Note 2.
- (5) Seven-day yield
- (6) Affiliated Company
- (7) Shares amount represents either the total number of shares or total contract value of the securities underlying the options. See Note 3.

ADR American Depositary Receipts  
 CNH Offshore China Renminbi  
 GBP British Pound  
 GDR Global Depositary Receipts  
 HKD Hong Kong Dollar  
 JPY Japanese Yen  
 USD U.S. Dollar

**OPTIONS WRITTEN 0.9% (7)**

Altice, Call, 1/20/17 @ \$19.00	16,000	(8)
Altice, Call, 1/20/17 @ \$20.00	8,100	(2)
Tokio Marine Holdings		
Call, 1/20/17 @ \$55.00	3,400	—

**Total Options Written**

**(Premiums (\$17))** ..... **(10)**

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**Forward Currency Exchange Contracts**

(Amounts in 000s)

Counterparty	Settlement	Receive		Deliver		Unrealized Gain (Loss)
HSBC Bank	1/13/17	USD	3,018	JPY	328,666	\$ 204
UBS Investment Bank	1/13/17	USD	3,031	GBP	2,393	81
Net unrealized gain (loss) on open forward currency exchange contracts						<u>\$ 285</u>

**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 which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Purchase and sales cost and investment income reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Investment Income</b>	<b>Value 12/31/16</b>	<b>Value 12/31/15</b>
T. Rowe Price Government Reserve Fund +	□	□	\$ 17	\$ 7,055	\$ 11,845
T. Rowe Price Short-Term Fund #	□	□	— <sup>^</sup>	2,717	1,597
Totals			<u>\$ 17</u>	<u>\$ 9,772</u>	<u>\$ 13,442</u>

□ Purchase and sale information not shown for cash management funds.

+ At December 31, 2015, the underlying fund's name was T. Rowe Price Reserve Investment Fund.

# At December 31, 2015, the underlying fund's name was T. Rowe Price Short-Term Reserve Fund.

<sup>^</sup> Excludes earnings on securities lending collateral, which are subject to rebates and fees as described in Note 4.

Amounts reflected on the accompanying financial statements include the following amounts related to affiliated companies:

Investment in securities, at cost	<u>\$ 9,772</u>
Dividend income	17
Interest income	<u>—</u>
Investment income	<u>\$ 17</u>
Realized gain (loss) on securities	<u>\$ —</u>
Capital gain distributions from mutual funds	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price International Stock Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$271,568)	\$ 312,789
Receivable for investment securities sold	690
Dividends receivable	442
Unrealized gain on forward currency exchange contracts	285
Receivable for shares sold	211
Foreign currency (cost \$100)	101
Cash	38
Other assets	1,112
Total assets	<u>315,668</u>

### Liabilities

Obligation to return securities lending collateral	2,717
Payable for investment securities purchased	535
Payable for shares redeemed	519
Investment management and administrative fees payable	379
Written options (premiums \$17)	10
Other liabilities	887
Total liabilities	<u>5,047</u>

### NET ASSETS

\$ 310,621

### Net Assets Consist of:

Undistributed net investment income	\$ 229
Accumulated undistributed net realized loss	(3,995)
Net unrealized gain	41,483
Paid-in capital applicable to 21,771,597 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized	272,904

### NET ASSETS

\$ 310,621

### NET ASSET VALUE PER SHARE

\$ 14.27

The accompanying notes are an integral part of these financial statements.

## Statement of Operations

T. Rowe Price International Stock Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Income	
Dividend (net of foreign taxes of \$505)	\$ 6,644
Securities lending	130
Total income	6,774
Investment management and administrative expense	3,238
Net investment income	3,536
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain (loss)	
Securities	10,353
Written options	58
Foreign currency transactions	388
Net realized gain	10,799
Change in net unrealized gain / loss	
Securities	(7,720)
Written options	7
Other assets and liabilities denominated in foreign currencies	301
Change in net unrealized gain / loss	(7,412)
Net realized and unrealized gain / loss	3,387
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 6,923</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

T. Rowe Price International Stock Portfolio

(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment income	\$ 3,536	\$ 2,939
Net realized gain	10,799	7,705
Change in net unrealized gain / loss	(7,412)	(13,111)
Increase (decrease) in net assets from operations	6,923	(2,467)
Distributions to shareholders		
Net investment income	(3,325)	(3,033)
Net realized gain	(11,428)	(6,068)
Decrease in net assets from distributions	(14,753)	(9,101)
Capital share transactions*		
Shares sold	34,661	28,717
Distributions reinvested	14,753	9,101
Shares redeemed	(35,994)	(50,865)
Increase (decrease) in net assets from capital share transactions	13,420	(13,047)
<b>Net Assets</b>		
Increase (decrease) during period	5,590	(24,615)
Beginning of period	305,031	329,646
<b>End of period</b>	<b>\$ 310,621</b>	<b>\$ 305,031</b>
Undistributed net investment income	229	18
*Share information		
Shares sold	2,387	1,825
Distributions reinvested	1,037	624
Shares redeemed	(2,438)	(3,258)
Increase (decrease) in shares outstanding	986	(809)

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

T. Rowe Price International Stock Portfolio

December 31, 2016

T. Rowe Price International Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The T. Rowe Price International Stock Portfolio (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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. 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. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Income distributions are declared and paid annually. Distributions to shareholders are recorded on the ex-dividend date. Capital gain distributions are generally 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 date of the transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is reflected as a component of security gains and losses.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is required for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.

### 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, in its judgment, materially 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. Listed options, and OTC options with a listed equivalent, are valued at the mean of the closing bid and asked prices and generally are categorized in Level 2 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, 2016:

(\$000s)	Level 1	Level 2	Level 3	Total Value
	Quoted Prices	Significant Observable Inputs	Significant Unobservable Inputs	
<b>Assets</b>				
Investments in Securities, except:	\$ —	\$ 197,214	\$ —	\$ 197,214
Brazil	1,878	2,815	—	4,693
China	5,670	10,588	478	16,736
Israel	613	—	—	613
Mexico	2,623	—	—	2,623
Netherlands	2,764	7,819	—	10,583
Spain	3,045	5,143	—	8,188
United Kingdom	6,643	43,054	—	49,697
United States	12,670	—	—	12,670
Short-Term Investments	7,055	—	—	7,055
Securities Lending Collateral	2,717	—	—	2,717
Total Securities	45,678	266,633	478	312,789
Forward Currency Exchange Contracts	—	285	—	285
Total	\$ 45,678	\$ 266,918	\$ 478	\$ 313,074
<b>Liabilities</b>				
Options Written	\$ —	\$ 10	\$ —	\$ 10

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2016.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2016. 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, 2016, totaled \$96,000 for the year ended December 31, 2016.

(\$000s)	Beginning Balance 1/1/16	Gain (Loss) During Period	Total Sales	Ending Balance 12/31/16
Investments in Securities				
Convertible Preferred Stocks	\$ 392	\$ 104	\$ (18)	\$ 478

### NOTE 3 - DERIVATIVE INSTRUMENTS

During the year ended December 31, 2016, 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, 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.

The following table summarizes the fair value of the fund's derivative instruments held as of December 31, 2016, and the related location on the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

(\$000s)	Location on Statement of Assets and Liabilities	Fair Value
<b>Assets</b>		
Foreign exchange derivatives	Forwards	\$ 285
<b>Liabilities</b>		
Equity derivatives	Written options	\$ 10

Additionally, the amount of gains and losses on derivative instruments recognized in fund earnings during the year ended December 31, 2016, 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		
	Written Options	Foreign Currency Transactions	Total
<b>Realized Gain (Loss)</b>			
Foreign exchange derivatives	\$ —	\$ 532	\$ 532
Equity derivatives	58	—	58
Total	\$ 58	\$ 532	\$ 590
<b>Change in Unrealized Gain/Loss</b>			
Foreign exchange derivatives	\$ —	\$ 285	\$ 285
Equity derivatives	7	—	7
Total	\$ 7	\$ 285	\$ 292

**Counterparty Risk and Collateral** The fund invests in derivatives in various markets, which expose it to differing levels of counterparty risk. Counterparty risk on exchange-traded and centrally cleared derivative contracts, such as futures, exchange-traded options, and centrally cleared swaps, is minimal because the clearinghouse provides protection against counterparty defaults. For futures and centrally cleared swaps, the fund is required to deposit collateral in an amount specified by the clearinghouse and the clearing firm (margin requirement), and the margin requirement must be maintained over the life of the contract. Each clearinghouse and clearing firm, in its sole discretion, may adjust the margin requirements applicable to the fund.

Derivatives, such as bilateral swaps, forward currency exchange contracts, and OTC options, that are transacted and settle directly with a counterparty (bilateral derivatives) expose the fund to greater 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 provide 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 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 settled. 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 a 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 transferred the next 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. As of December 31, 2016, no collateral had been posted by the fund to counterparties for

bilateral derivatives. As of December 31, 2016, collateral pledged by counterparties to the fund for bilateral derivatives consisted of securities valued at \$116,000. As of December 31, 2016, no margin had been posted by the fund for exchange-traded and/or centrally cleared 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 relative to the U.S. dollar. 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, 2016, the volume of the fund's activity in forwards, based on underlying notional amounts, was generally between 0% and 3% 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, purchased options are included in Investments in Securities, and written options 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 written options, potential losses in excess of the fund's initial investment. During the year ended December 31, 2016, the volume of the fund's activity in options, based on underlying notional amounts, was generally less than 1% of net assets. Transactions in written options and related premiums received during the year ended December 31, 2016, were as follows:

(\$000s)		
	Number of Contracts	Premiums
Outstanding at beginning of period	—	\$ —
Written	1,082	82
Exercised	(202)	(8)
Expired	(605)	(57)
Outstanding at end of period	275	\$ 17

#### 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 21% 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 brokers 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, valued at 102% to 105% of the value of the securities on loan. 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 by the lending agent(s) 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, 2016, the value of loaned securities was \$2,604,000; the value of cash collateral and related investments was \$2,717,000.

**Other** Purchases and sales of portfolio securities other than short-term securities aggregated \$125,930,000 and \$118,549,000, respectively, for the year ended December 31, 2016.

## 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, 2016 and December 31, 2015, were characterized for tax purposes as follows:

	December 31	
	2016	2015
Ordinary income	\$ 4,779	\$ 3,033
Long-term capital gain	9,974	6,068
Total distributions	\$ 14,753	\$ 9,101

At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

(\$000s)	
Cost of investments	\$ 277,232
Unrealized appreciation	\$ 54,755
Unrealized depreciation	(19,221)
Net unrealized appreciation (depreciation)	35,534
Undistributed ordinary income	465
Undistributed long-term capital gain	1,818
Late-year ordinary loss deferrals	(100)
Paid-in capital	272,904
Net assets	\$ 310,621

The difference between book-basis and tax-basis net unrealized appreciation (depreciation) is attributable to the deferral of losses from wash sales and certain derivative contracts, and the realization of gains/losses on passive foreign investment companies and certain open derivative contracts for tax purposes. In accordance with federal tax laws applicable to investment companies, specified net 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, 2016, the fund had no deferred tax liability attributable to foreign securities and \$1,802,000 of foreign capital loss carryforwards, including \$480,000 that expire in 2017, \$473,000 that expire in 2018, \$185,000 that expire in 2019, \$401,000 that expire in 2020, \$38,000 that expire in 2021, \$17,000 that expire in 2022, \$186,000 that expire in 2023, and \$22,000 that expire in 2025.

#### 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.

## T. Rowe Price International Stock Portfolio

The fund may invest in the T. Rowe Price Government Reserve Fund, the T. Rowe Price Treasury Reserve Fund, or the T. Rowe Price Short-Term Fund (collectively, the Price Reserve Funds), open-end management investment companies managed by Price Associates and considered affiliates of the fund. 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. 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, 2016, the fund had no purchases or sales cross trades with other funds or accounts advised by Price Associates.

## **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**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price International Stock Portfolio (one of the portfolios constituting T. Rowe Price International Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and brokers, and confirmation of the underlying funds by correspondence with the transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017



### **Tax Information (Unaudited) for the Tax Year Ended 12/31/16**

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:

- \$1,454,000 from short-term capital gains,
- \$9,974,000 from long-term capital gains, subject to a long-term capital gains tax rate of not greater than 20%.

For taxable non-corporate shareholders, \$5,235,000 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, \$201,000 of the fund's income qualifies for the dividends-received deduction.

The fund will pass through foreign source income of \$3,420,000 and foreign taxes paid of \$332,000.

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

## 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 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

<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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 1994 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 2001 [187]	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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.

**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 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Brian C. Rogers, CFA, CIC (1955) 2006 [131]	Chief Investment Officer, Director, and Vice President, T. Rowe Price; Chairman of the Board, Chief Investment Officer, Director, and Vice President, T. Rowe Price Group, Inc.; Vice President, T. Rowe Price Trust Company; Director, United Technologies (January 2016 to present)

\*Each inside director serves until retirement, resignation, or election of a successor.

**Officers**

<b>Name (Year of Birth) Position Held With International Series</b>	<b>Principal Occupation(s)</b>
Christopher D. Alderson (1962) President	Company's Representative and Vice President, Price Hong Kong; Vice President, Price Singapore; Director and Vice President, T. Rowe Price International; Vice President, 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.
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
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

**Officers (continued)**

<b>Name (Year of Birth)</b> <b>Position Held With International Series</b>	<b>Principal Occupation(s)</b>
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); Summer Investment Analyst, T. Rowe Price International (2012); Analyst, Asset & Resource Management Limited (to 2012)
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
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., T. Rowe Price Services, Inc.

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

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100 East Pratt Street  
Baltimore, MD 21202

December 31, 2016

*Annual Report*

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# Limited-Term Bond Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.



## T. Rowe Price Limited-Term Bond Portfolio

### Highlights

- Short-term securities produced modestly positive returns during the 12-month period ended December 31, 2016.
- The Limited-Term Bond Portfolio outperformed the Bloomberg Barclays 1–3 Year U.S. Government/Credit Bond Index during the period but underperformed the Lipper peer group average.
- Given the economic and political turmoil, we maintained a defensive tilt in the portfolio, keeping the majority of our holdings in high-quality, shorter-maturity bonds.
- We expect investor demand for U.S. assets to remain high, especially as rates in many other developed markets hover near zero.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price Limited-Term Bond Portfolio

## Dear Investor

Improved economic data before the election and hopes for even faster growth under the incoming Trump administration weighed on securities that are vulnerable to rising interest rates, especially Treasury bonds. Your fund outperformed its benchmark primarily as a result of its large allocation to high-quality corporate bonds.

## Performance

### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
Limited-Term Bond Portfolio	-0.33%	1.37%
Limited-Term Bond Portfolio-II	-0.45	1.12
Bloomberg Barclays 1-3 Year U.S. Government/Credit Bond Index	-0.37	1.28
Lipper Variable Annuity Underlying Short-Intermediate Investment Grade Debt Funds Average	-0.55	2.33

The portfolio returned 1.37% during the 12 months ended December 31, 2016, and outperformed the 1.28% gain for the Bloomberg Barclays 1-3 Year U.S. Government/Credit Bond Index but underperformed the 2.33% return for our Lipper peer group average. (Performance for the Portfolio-II was slightly lower, reflecting its different expense ratio.) The portfolio's net asset value (NAV) fell to \$4.84 and dividends contributed \$0.07 per share to total return during the 12-month period. (The NAV for the Portfolio-II shares ended the year at \$4.82, and the dividend contribution was \$0.05.)

### Key Statistics

Periods Ended	6/30/16	12/31/16
<b>Limited-Term Bond Portfolio</b>		
Price Per Share	\$4.89	\$4.84
Dividends Per Share		
6 Months	0.03	0.03
12 Months	0.06	0.07
SEC Yield (30-day)	1.00%	1.07%
<b>Limited-Term Bond Portfolio-II</b>		
Price Per Share	\$4.87	\$4.82
Dividends Per Share		
6 Months	0.03	0.03
12 Months	0.05	0.05
SEC Yield (30-day)	0.76%	0.82%
Weighted Average Maturity (years)	2.2	2.0
Weighted Average Effective Duration (years)	1.8	1.8

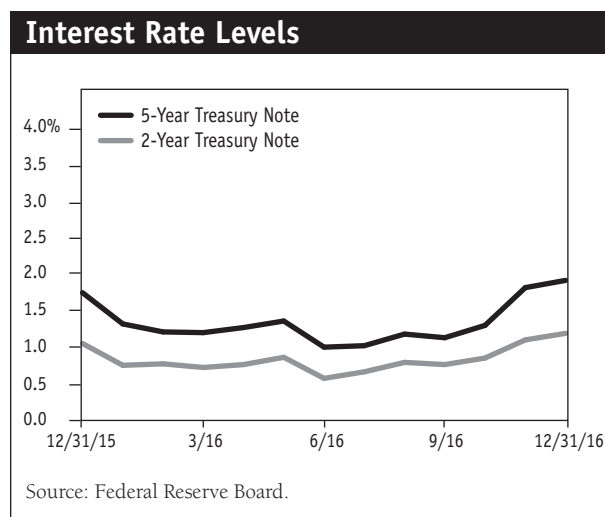
12-month dividends may not equal the combined 6-month figures due to rounding.

## Economy and Interest Rates

U.S. economic growth picked up in the second half of 2016 after a sluggish first half. According to the Commerce Department's latest estimate, third-quarter gross domestic product grew at an annualized pace of 3.5%, following readings of 0.8% and 1.4% in the first and second quarters, respectively. Although the pace of employment growth moderated, the labor market remained strong, wage growth accelerated, and overall inflation pressures firmed as commodity prices rebounded from early-2016 lows.

During the 12-month period, interest rates moved higher, albeit unevenly, as markets anticipated the Federal Reserve's December increase in its federal funds target rate. The yield on the two-year Treasury note began the period at 1.06% and rose to 1.20%, whereas the yield on the five-year Treasury began at 1.76% and ended the reporting period at 1.93%. Many bond yields fell to record lows over the summer but spiked higher after the November U.S. election. (Bond prices and

yields move in opposite directions.) Credit spreads on investment-grade corporate bonds narrowed significantly over the period, as vigorous demand from yield-hungry investors easily digested the new bond supply. The prospect of corporate tax cuts and higher levels of government spending from the Trump administration helped support investment-grade corporate bonds after the election, as did an decrease in risk aversion following the stabilization in oil prices. Oil prices rose 45% in 2016, closing the year at \$53.72 per barrel.

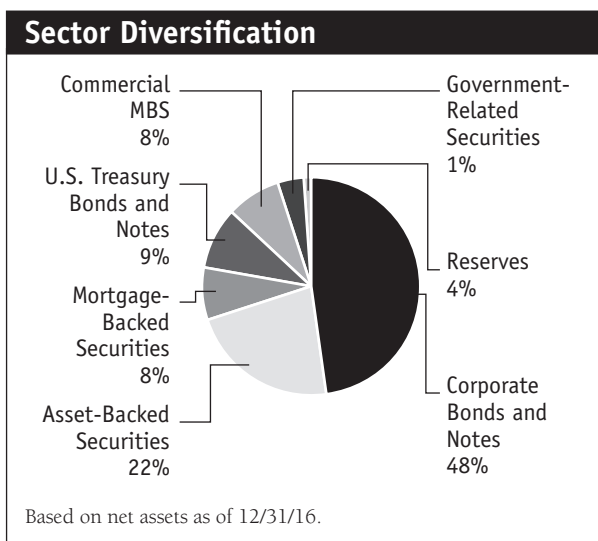


## Portfolio Review

Given the economic and political turmoil of the past 12 months, ranging from the UK's vote to leave the European Union to the election of Donald Trump, we maintained a defensive tilt in the portfolio, keeping the majority of our holdings in high-quality, shorter-maturity bonds. We incrementally added to short-maturity corporate debt throughout the year, which allowed the portfolio to pick up incremental yield without significantly adding to credit or interest rate risk. Toward the end of the reporting period, the portfolio increased its allocation to commercial paper, which offered attractive yields, limited credit risk, and a low-duration profile. These allocation decisions benefited relative performance. In addition to our overweight to corporate bonds, our out-of-benchmark positions in asset-backed (ABS) and mortgage-backed securities (MBS) and the corresponding underweight to U.S. Treasuries contributed to performance as yields rose during the period. Although the portfolio's duration remained shorter than that of the benchmark, the sharp rise in rates detracted from the value of our holdings.

While the U.S. business cycle may have peaked, overseas investor demand remained strong, especially for new domestic corporate bond issues with higher yields. In the energy sector, some of our lower-quality holdings that suffered the most when oil prices declined, namely **Murphy Oil** and **Superior Energy Systems**, experienced the strongest recovery when oil prices stabilized and risk sentiment shifted. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

While we are primarily a cash bond manager, we occasionally make limited use of derivatives in our strategy for hedging purposes. Derivatives may include futures and options, as well as credit default and interest rate swaps. During the period, we used derivatives to balance our duration positioning to more closely align with the benchmark. We hedged the 10-year and two-year Treasuries with Treasury futures to offset some of our positions in five-year corporate and mortgage securities. As interest rates fell, our short position in the 10-year note detracted.



At the end of the period, corporate bonds and notes accounted for 48% of the portfolio's assets, followed by ABS and MBS at 22% and 8%, respectively. Commercial MBS, U.S. Treasury debt, government-related securities, and reserves composed the remaining 22%. The portfolio had 94% of net assets invested in securities rated BBB or higher, including those guaranteed by the U.S. Treasury, various U.S. government agencies, and reserves.

## Quality Diversification

	Percent of Net Assets	
	6/30/16	12/31/16
Quality Rating		
U.S. Government		
Agency Securities*	12%	8%
U.S. Treasury**	6	9
AAA	27	26
AA	6	5
A	19	16
BBB	26	29
BB and Below	4	4
Not Rated	0	2
Reserves	0	1
Total	100%	100%

\*U.S. government agency securities include GNMA securities and conventional pass-throughs, collateralized mortgage obligations, and project loans. U.S. government agency securities, unlike Treasuries, are not issued directly by the U.S. government and are generally unrated but have credit support from the U.S. Treasury (in the case of Freddie Mac and Fannie Mae issues) or a direct government guarantee (in the case of Ginnie Mae issues). Unrated securities totaled 2% of the portfolio at the end of the reporting period.

\*\*U.S. Treasury securities are issued by the U.S. Treasury and are backed by the full faith and credit of the U.S. government. The ratings of U.S. Treasury securities are derived from the ratings on the U.S. government.

Sources: Moody's Investors Service; if Moody's does not rate a security, then Standard & Poor's (S&P) is used as a secondary source. When available, Fitch will be used for securities that are not rated by Moody's or S&P. T. Rowe Price does not evaluate these ratings but simply assigns them to the appropriate credit quality category as determined by the rating agency.

## Outlook

Following the Fed's December 2016 rate hike, we expect the central bank to carefully weigh the policy actions of the Trump administration as well as key economic data before moving forward with additional rate increases. While we believe the U.S. economic expansion is nearing its end, new tax and spending proposals could prolong it. Even if the U.S. credit cycle has passed its peak, we expect investor demand for U.S. assets to remain high, especially as rates in many other developed markets hover near zero.

Because of the uncertainty in the current market environment, we will continue to emphasize risk management. We have always taken a risk-aware, long-term approach to investing, and we generally buy bonds that we intend to hold until maturity. We plan to continue selectively adding to higher-conviction names, while analyzing new market opportunities in both the primary and secondary markets. As always, we strive to find value and seek out securities offering reasonable yields without taking on an inordinate level of risk.

Thank you for investing with T. Rowe Price.

Respectfully submitted,



Michael Reinartz  
President and chairman of the portfolio's Investment Advisory Committee

January 19, 2017

*The committee chairman has day-to-day responsibility for managing the portfolio and works with committee members in developing and executing the fund's investment program.*

## Risks of Fixed Income Investing

Bonds are subject to interest rate risk (the decline in bond prices that usually accompanies a rise in interest rates) and credit risk (the chance that any fund holding could have its credit rating downgraded or that a bond issuer will default by failing to make timely payments of interest or principal), potentially reducing the fund's income level and share price. Mortgage-backed securities are subject to prepayment risk, particularly if falling rates lead to heavy refinancing activity, and extension risk, which is an increase in interest rates that causes a fund's average maturity to lengthen unexpectedly due to a drop in mortgage prepayments. This could increase the fund's sensitivity to rising interest rates and its potential for price declines.

## Glossary

**Bloomberg Barclays 1–3 Year U.S. Government/Credit Bond Index:** A total return index that incorporates all bonds in the Treasury Bond Index and the Agency Bond Index, as well as U.S. corporate and some foreign debentures and secured notes, with maturities of one to three years.

**Duration:** A measure of a bond fund's sensitivity to changes in interest rates. For example, a fund with a duration of two years would fall about 2% in price in response to a one-percentage-point rise in interest rates, and vice versa.

**Fed funds rate:** The interest rate charged on overnight loans of reserves by one financial institution to another in the United States. The Federal Reserve sets a target federal funds rate to affect the direction of interest rates.

**Gross domestic product:** The total market value of all goods and services produced in a country in a given year.

**Lipper averages:** The averages of available mutual fund performance returns for specified time periods in categories defined by Lipper Inc.

**SEC yield (30-day):** A method of calculating a fund's yield that assumes all portfolio securities are held until maturity. Yield will vary and is not guaranteed.

## Glossary (continued)

**Weighted average maturity:** A measure of a fund's interest rate sensitivity. In general, the longer the average maturity, the greater the fund's sensitivity to interest rate changes. The weighted average maturity may take into account the interest rate readjustment dates for certain securities.

**Yield curve:** A graph depicting the relationship between yields and maturity dates for a set of similar securities. These curves are in constant flux. One of the key activities in managing any fixed income portfolio is to study the trends reflected by yield curves.

Note: Bloomberg Index Services Ltd. Copyright 2017, Bloomberg Index Services Ltd. Used with permission.

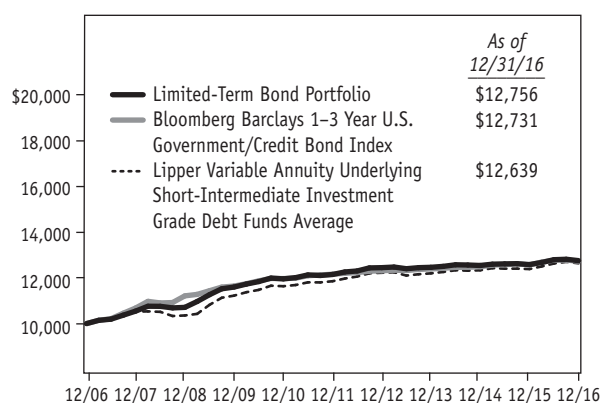
## Performance and Expenses

### T. Rowe Price Limited-Term Bond 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 may include a broad-based market index and 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.

#### Limited-Term Bond Portfolio



Note: Performance for the II Class will vary due to its differing fee structure. See the returns table below.

#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
Limited-Term Bond Portfolio	1.37%	0.98%	2.46%
Limited-Term Bond Portfolio-II	1.12	0.77	2.15

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. 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.

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. Please note that the fund has two classes of shares: the original share class and II Class. II Class shares are sold through financial intermediaries, which are compensated for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan.

#### 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.

## Fund Expense Example (continued)

Limited-Term Bond Portfolio			
	Beginning Account Value 7/1/16	Ending Account Value 12/31/16	Expenses Paid During Period* 7/1/16 to 12/31/16
<b>Limited-Term Bond Portfolio</b>			
Actual	\$1,000.00	\$996.70	\$3.51
Hypothetical (assumes 5% return before expenses)	1,000.00	1,021.62	3.56
<b>Limited-Term Bond Portfolio-II</b>			
Actual	1,000.00	995.50	4.77
Hypothetical (assumes 5% return before expenses)	1,000.00	1,020.36	4.82

\*Expenses are equal to the fund's annualized expense ratio for the 6-month period, 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 (366) to reflect the half-year period. The annualized expense ratio of the Limited-Term Bond Portfolio was 0.70%, and the Limited-Term Bond Portfolio-II was 0.95%.

## Financial Highlights

T. Rowe Price Limited-Term Bond Portfolio

### Limited-Term Bond Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 4.84	\$ 4.88	\$ 4.91	\$ 4.98	\$ 4.97
Investment activities					
Net investment income <sup>(1)</sup>	0.05	0.04	0.05	0.06	0.08
Net realized and unrealized gain / loss	0.02	(0.02)	(0.02)	(0.05)	0.04
Total from investment activities	0.07	0.02	0.03	0.01	0.12
Distributions					
Net investment income	(0.07)	(0.06)	(0.06)	(0.08)	(0.10)
Net realized gain	—	—	—	— <sup>(2)</sup>	(0.01)
Total distributions	(0.07)	(0.06)	(0.06)	(0.08)	(0.11)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 4.84</b>	<b>\$ 4.84</b>	<b>\$ 4.88</b>	<b>\$ 4.91</b>	<b>\$ 4.98</b>

### Ratios/Supplemental Data

<b>Total return<sup>(3)</sup></b>	<b>1.37%</b>	<b>0.31%</b>	<b>0.64%</b>	<b>0.13%</b>	<b>2.47%</b>
Ratio of total expenses to average net assets	0.70%	0.70%	0.70%	0.70%	0.70%
Ratio of net investment income to average net assets	1.05%	0.82%	1.00%	1.12%	1.63%
Portfolio turnover rate	58.0%	89.2%	117.0%	52.4%	64.3%
Net assets, end of period (in thousands)	\$ 390,964	\$ 420,125	\$ 261,935	\$ 168,117	\$ 156,343

(1) Per share amounts calculated using average shares outstanding method.

(2) Amounts round to less than \$0.01 per share.

(3) 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.



## Financial Highlights

T. Rowe Price Limited-Term Bond Portfolio

### Limited-Term Bond-II Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 4.82	\$ 4.86	\$ 4.89	\$ 4.96	\$ 4.94
Investment activities					
Net investment income <sup>(1)</sup>	0.04	0.03	0.04	0.03	0.08
Net realized and unrealized gain / loss	0.01	(0.03)	(0.02)	(0.04)	0.04
Total from investment activities	0.05	—	0.02	(0.01)	0.12
Distributions					
Net investment income	(0.05)	(0.04)	(0.05)	(0.06)	(0.09)
Net realized gain	—	—	—	— <sup>(2)</sup>	(0.01)
Total distributions	(0.05)	(0.04)	(0.05)	(0.06)	(0.10)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 4.82</b>	<b>\$ 4.82</b>	<b>\$ 4.86</b>	<b>\$ 4.89</b>	<b>\$ 4.96</b>

### Ratios/Supplemental Data

<b>Total return<sup>(3)</sup></b>	<b>1.12%</b>	<b>0.06%</b>	<b>0.39%</b>	<b>(0.12)%</b>	<b>2.43%</b>
Ratio of total expenses to average net assets	0.95%	0.95%	0.95%	0.95%	0.95%
Ratio of net investment income to average net assets	0.77%	0.62%	0.81%	0.65%	1.53%
Portfolio turnover rate	58.0%	89.2%	117.0%	52.4%	64.3%
Net assets, end of period (in thousands)	\$ 9,979	\$ 11,043	\$ 8,224	\$ 4,824	\$ 2,258

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</sup> Amounts round to less than \$0.01 per share.

<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.

## Portfolio of Investments<sup>†</sup>

T. Rowe Price Limited-Term Bond Portfolio

December 31, 2016

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>CORPORATE BONDS 47.9%</b>		
<b>Financial Institutions 18.9%</b>		
<b>Banking 12.9%</b>		
Banco de Credito del Peru		
2.25%, 10/25/19 (1)	200	198
Bank of America		
1.70%, 8/25/17	700	701
Bank of America		
1.75%, 6/5/18	2,455	2,455
Bank of America		
2.503%, 10/21/22	435	420
Bank of America		
2.625%, 4/19/21	850	842
Bank of America		
5.65%, 5/1/18	235	247
Bank of Tokyo-Mitsubishi UFJ		
2.15%, 9/14/18 (1)	1,010	1,010
Banque Federale Credit Mutuel		
1.70%, 1/20/17 (1)	1,040	1,040
Banque Federale Credit Mutuel		
2.00%, 4/12/19 (1)	690	686
Banque Federale Credit Mutuel		
2.50%, 10/29/18 (1)	435	439
Barclays Bank		
6.05%, 12/4/17 (1)	1,055	1,088
BB&T, VR		
1.823%, 6/15/18	405	407
BPCE		
1.625%, 2/10/17	250	250
BPCE		
1.625%, 1/26/18	695	693
BPCE		
2.50%, 12/10/18	1,435	1,448
Capital One National Association		
1.65%, 2/5/18	715	714
Capital One National Association		
1.85%, 9/13/19	1,040	1,027
Citigroup		
1.55%, 8/14/17	475	475
Citigroup		
1.80%, 2/5/18	1,500	1,499
Citigroup		
1.85%, 11/24/17	1,085	1,087
Citigroup		
2.90%, 12/8/21	990	980

	Par/Shares	\$ Value
(Amounts in 000s)		
Citizens Bank		
2.45%, 12/4/19	250	251
Citizens Bank		
2.50%, 3/14/19	925	932
Citizens Bank		
2.55%, 5/13/21	390	387
Credit Suisse New York		
1.375%, 5/26/17	595	595
Discover Bank		
2.00%, 2/21/18	250	250
Discover Bank		
7.00%, 4/15/20	1,305	1,444
Discover Financial Services		
6.45%, 6/12/17	840	857
Goldman Sachs		
5.95%, 1/18/18	960	1,000
Goldman Sachs		
6.15%, 4/1/18	2,680	2,817
HSBC Bank, VR		
1.546%, 5/15/18 (1)	380	380
HSBC Holdings		
2.65%, 1/5/22	470	459
Huntington National Bank		
2.20%, 11/6/18	995	998
JPMorgan Chase		
2.00%, 8/15/17	1,880	1,887
JPMorgan Chase, VR		
2.112%, 10/24/23	575	585
JPMorgan Chase		
2.25%, 1/23/20	800	798
Merrill Lynch		
6.40%, 8/28/17	415	428
Merrill Lynch		
6.875%, 4/25/18	185	196
Mizuho Bank		
1.70%, 9/25/17 (1)	490	490
Morgan Stanley, VR		
1.732%, 1/24/19	1,960	1,969
Morgan Stanley		
2.125%, 4/25/18	2,000	2,008
Morgan Stanley, VR		
2.162%, 4/25/18	435	439
National Australia Bank		
1.875%, 7/23/18	1,315	1,317
National Bank of Canada		
1.45%, 11/7/17	1,205	1,204
Nationwide Building Society		
2.35%, 1/21/20 (1)	400	398

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Nordea Bank		
1.875%, 9/17/18 (1)	1,040	1,040
Regions Bank		
7.50%, 5/15/18	250	268
Santander		
2.00%, 8/24/18	1,345	1,344
Santander Bank		
2.00%, 1/12/18	500	499
Skandinaviska Enskilda Banken		
1.50%, 9/13/19	1,065	1,047
Standard Chartered		
1.50%, 9/8/17 (1)	605	602
Standard Chartered		
2.10%, 8/19/19 (1)	280	277
Sumitomo Mitsui Banking		
1.762%, 10/19/18	295	294
Sumitomo Mitsui Banking		
1.95%, 7/23/18	500	500
Sumitomo Mitsui Trust Bank		
1.80%, 3/28/18 (1)	1,010	1,006
SunTrust Banks		
2.35%, 11/1/18	200	202
Swedbank		
1.75%, 3/12/18 (1)	770	769
Toronto-Dominion Bank, VR		
1.437%, 4/30/18	355	356
Toronto-Dominion Bank		
1.75%, 7/23/18	1,050	1,051
Toronto-Dominion Bank		
1.95%, 1/22/19	1,005	1,006
UBS Group Funding		
2.95%, 9/24/20 (1)	1,015	1,015
Union Bank of California		
2.125%, 6/16/17	470	472
		51,543
<b>Brokerage Asset Managers Exchanges 0.0%</b>		
Legg Mason		
2.70%, 7/15/19	45	45
		45
<b>Finance Companies 1.0%</b>		
AerCap Aviation Solution		
6.375%, 5/30/17	305	311
AerCap Ireland Capital		
3.95%, 2/1/22	785	793
Air Lease		
2.125%, 1/15/18	270	270
Air Lease		
2.125%, 1/15/20	890	873

	Par/Shares	\$ Value
(Amounts in 000s)		
GATX		
1.25%, 3/4/17	1,140	1,140
GATX		
2.375%, 7/30/18	80	80
GATX		
2.60%, 3/30/20	645	638
		4,105
<b>Insurance 4.2%</b>		
Aetna		
1.50%, 11/15/17	250	250
Aetna		
1.90%, 6/7/19	1,455	1,451
AIA Group		
2.25%, 3/11/19 (1)	200	201
Anthem		
2.30%, 7/15/18	775	779
Anthem		
2.375%, 2/15/17	1,575	1,577
Aon		
2.80%, 3/15/21	970	969
CNA Financial		
6.95%, 1/15/18	200	210
CNA Financial		
7.35%, 11/15/19	230	261
Fidelity National Financial		
6.60%, 5/15/17	1,921	1,954
Humana		
2.625%, 10/1/19	745	751
Marsh & McLennan Companies		
2.55%, 10/15/18	170	172
MetLife Global Funding I		
1.50%, 1/10/18 (1)	1,250	1,249
Pricoa Global Funding I		
1.90%, 9/21/18 (1)	1,360	1,364
Principal Life Global Funding II		
1.50%, 9/11/17 (1)	200	200
Principal Life Global Funding II		
1.50%, 4/18/19 (1)	415	410
Principal Life Global Funding II		
2.20%, 4/8/20 (1)	1,545	1,524
Reinsurance Group of America		
5.625%, 3/15/17	1,305	1,315
Reinsurance Group of America		
6.45%, 11/15/19	210	232
Trinity Acquisition		
3.50%, 9/15/21	255	257

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
UnitedHealth Group		
1.45%, 7/17/17	1,540	1,542
XLIT		
2.30%, 12/15/18	210	211
		16,879
<b>Real Estate Investment Trusts 0.8%</b>		
American Campus Communities		
3.35%, 10/1/20	700	709
Kimco Realty		
6.875%, 10/1/19	150	168
Simon Property Group		
2.35%, 1/30/22	440	434
Ventas Realty		
1.25%, 4/17/17	95	95
Ventas Realty		
2.00%, 2/15/18	500	501
Ventas Realty		
4.00%, 4/30/19	85	88
WEA Finance		
1.75%, 9/15/17 (1)	200	200
WEA Finance		
2.70%, 9/17/19 (1)	1,110	1,122
		3,317
Total Financial Institutions		<b>75,889</b>

**Industrial 26.7%**
**Basic Industry 1.9%**

BHP Billiton Finance		
2.05%, 9/30/18	1,105	1,110
Ecolab		
1.55%, 1/12/18	1,355	1,356
Ecolab		
2.00%, 1/14/19	690	690
GoldCorp		
2.125%, 3/15/18	725	723
Invista Finance		
4.25%, 10/15/19 (1)	1,005	1,002
LyondellBasell Industries		
5.00%, 4/15/19	270	285
Sherwin Williams		
1.35%, 12/15/17	1,845	1,842
Solvay Finance		
3.40%, 12/3/20 (1)	705	717
		7,725

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>Capital Goods 1.4%</b>		
Fortive		
1.80%, 6/15/19 (1)	105	105
Harris		
1.999%, 4/27/18	1,140	1,141
Martin Marietta Material, VR		
2.098%, 6/30/17	775	776
Roper Industries		
2.05%, 10/1/18	1,935	1,940
Roper Technologies		
2.80%, 12/15/21	305	305
Roper Technologies		
3.00%, 12/15/20	150	151
Stanley Black & Decker		
1.622%, 11/17/18	1,150	1,143
		5,561
<b>Communications 2.9%</b>		
AT&T		
2.30%, 3/11/19	1,075	1,079
Charter Communications Operating		
3.579%, 7/23/20	800	815
Crown Castle International		
2.25%, 9/1/21	385	371
Crown Castle International		
3.40%, 2/15/21	600	607
Crown Castle Towers		
6.113%, 1/15/40 (1)	1,190	1,292
Interpublic Group of Companies		
2.25%, 11/15/17	1,060	1,064
Omnicom Group		
4.45%, 8/15/20	500	530
S&P Global		
2.50%, 8/15/18	125	126
SBA Tower Trust		
2.24%, 4/15/43 (1)	215	213
SBA Tower Trust		
2.898%, 10/15/44 (1)	1,640	1,650
SBA Tower Trust		
2.933%, 12/9/42 (1)	1,125	1,125
SBA Tower Trust		
3.598%, 4/15/43 (1)	180	181
Time Warner Cable		
5.85%, 5/1/17	580	588
Time Warner Cable		
6.75%, 7/1/18	425	454

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Time Warner Cable 8.25%, 4/1/19	1,180	1,327
		11,422
<b>Consumer Cyclical 6.4%</b>		
Alibaba Group Holding 2.50%, 11/28/19	1,480	1,488
AutoZone 1.625%, 4/21/19	125	124
Brinker International 2.60%, 5/15/18	760	762
CVS Health 1.90%, 7/20/18	1,860	1,866
Daimler Finance 1.65%, 3/2/18 (1)	510	509
Daimler Finance, VR 1.746%, 8/1/18 (1)	295	297
Daimler Finance 1.75%, 10/30/19 (1)	705	695
Daimler Finance 2.375%, 8/1/18 (1)	745	751
Delphi Automotive 3.15%, 11/19/20	1,080	1,095
Dollar General 4.125%, 7/15/17	660	669
Experian Finance 2.375%, 6/15/17 (1)	215	216
Ford Motor Credit 1.684%, 9/8/17	490	489
Ford Motor Credit 2.021%, 5/3/19	430	426
Ford Motor Credit 3.00%, 6/12/17	1,705	1,715
General Motors Financial 2.35%, 10/4/19	810	800
General Motors Financial 3.10%, 1/15/19	145	146
General Motors Financial 3.15%, 1/15/20	745	748
General Motors Financial 4.75%, 8/15/17	1,645	1,675
GLP Capital 4.375%, 11/1/18	400	413
Hyundai Capital America 1.45%, 2/6/17 (1)	1,945	1,945
Hyundai Capital America 1.75%, 9/27/19 (1)	495	486
Hyundai Capital America 2.00%, 7/1/19 (1)	350	346
Hyundai Capital Services 2.50%, 3/18/19 (1)	1,105	1,108

	Par/Shares	\$ Value
(Amounts in 000s)		
Hyundai Capital Services 3.50%, 9/13/17 (1)	200	202
JD.com 3.125%, 4/29/21	2,080	2,057
Nissan Motor Acceptance 1.95%, 9/12/17 (1)	825	827
Nissan Motor Acceptance 1.55%, 9/13/19 (1)	525	516
Volkswagen Group America 1.25%, 5/23/17 (1)	1,000	998
Walgreens Boots Alliance 1.75%, 5/30/18	735	735
Wyndham Worldwide 2.95%, 3/1/17	1,565	1,567
		25,671
<b>Consumer Non-Cyclical 8.3%</b>		
Abbott Laboratories 2.35%, 11/22/19	1,680	1,680
Abbott Laboratories 2.90%, 11/30/21	725	723
AbbVie 1.80%, 5/14/18	910	911
AbbVie 2.30%, 5/14/21	640	626
Actavis Funding 2.35%, 3/12/18	1,080	1,086
Agilent Technologies 6.50%, 11/1/17	69	71
Allergan 1.875%, 10/1/17	685	686
Anheuser Busch InBev Finance 1.90%, 2/1/19	1,700	1,703
Baxalta 2.00%, 6/22/18	95	95
Baxalta, VR 1.776%, 6/22/18	420	420
Biogen 2.90%, 9/15/20	445	449
Bunge Limited Finance 3.20%, 6/15/17	1,780	1,793
Bunge Limited Finance 3.50%, 11/24/20	380	385
Bunge Limited Finance 8.50%, 6/15/19	70	80
Cardinal Health 1.90%, 6/15/17	1,320	1,323
Catholic Health Initiatives 1.60%, 11/1/17	50	50
Catholic Health Initiatives 2.60%, 8/1/18	230	232

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Celgene		
1.90%, 8/15/17	1,000	1,008
Celgene		
2.30%, 8/15/18	1,610	1,618
Danone		
1.691%, 10/30/19 (1)	1,655	1,617
Express Scripts Holding		
2.25%, 6/15/19	115	115
Express Scripts Holding		
3.30%, 2/25/21	175	178
Heineken		
1.40%, 10/1/17 (1)	1,000	1,000
Imperial Tobacco Finance		
2.05%, 2/11/18 (1)	1,245	1,247
Imperial Tobacco Finance		
2.05%, 7/20/18 (1)	220	220
McKesson		
1.292%, 3/10/17	1,000	1,000
Mead Johnson Nutrition		
3.00%, 11/15/20	220	222
Medco Health Solutions		
4.125%, 9/15/20	515	539
Medtronic		
1.375%, 4/1/18	2,320	2,315
Newell Rubbermaid		
2.05%, 12/1/17	510	512
Newell Rubbermaid		
2.15%, 10/15/18	945	949
Newell Rubbermaid		
2.60%, 3/29/19	1,240	1,254
Perrigo		
2.30%, 11/8/18	665	665
Perrigo Finance		
3.50%, 3/15/21	200	202
Reynolds American		
2.30%, 6/12/18	425	428
Reynolds American		
8.125%, 6/23/19	265	302
Shire Acquisition		
Investments Ireland		
1.90%, 9/23/19	1,465	1,444
Takeda Pharmaceutical		
1.625%, 3/17/17 (1)	1,233	1,233
Teva Pharmaceuticals		
1.40%, 7/20/18	1,050	1,040
Teva Pharmaceuticals		
1.70%, 7/19/19	913	897
Teva Pharmaceuticals		
2.20%, 7/21/21	405	387
Whirlpool		
1.35%, 3/1/17	105	105

	Par/Shares	\$ Value
(Amounts in 000s)		
Whirlpool		
1.65%, 11/1/17	240	240
		33,050
<b>Energy 2.8%</b>		
Cameron International		
1.40%, 6/15/17	155	155
Canadian Natural Resources		
1.75%, 1/15/18	395	394
Canadian Natural Resources		
5.70%, 5/15/17	980	993
Columbia Pipeline Group		
2.45%, 6/1/18	255	256
ConocoPhillips		
1.05%, 12/15/17	540	537
ConocoPhillips		
5.20%, 5/15/18	115	120
DCP Midstream Operating		
2.50%, 12/1/17	465	464
Enbridge, VR		
1.384%, 6/2/17	160	160
EnCana		
6.50%, 5/15/19	105	113
Energy Transfer Partners		
6.125%, 2/15/17	815	818
Energy Transfer Partners		
6.70%, 7/1/18	130	138
Enterprise Products		
Operations		
2.55%, 10/15/19	15	15
ExxonMobil, VR		
1.316%, 3/6/22	1,395	1,386
Kinder Morgan Energy		
Partners		
5.95%, 2/15/18	330	344
Kinder Morgan Energy		
Partners		
6.00%, 2/1/17	265	266
Kinder Morgan Finance		
6.00%, 1/15/18 (1)	395	412
Marathon Oil		
6.00%, 10/1/17	1,030	1,061
Murphy Oil		
STEP, 3.50%, 12/1/17	2,110	2,123
ONEOK Partners		
3.20%, 9/15/18	25	26
Panhandle Eastern Pipeline		
6.20%, 11/1/17	85	88
Spectra Energy Partners		
2.95%, 9/25/18	380	386

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Williams Partners 7.25%, 2/1/17	770	774
		11,029
<b>Industrial Other 0.3%</b>		
Hutchison Whampoa Finance 1.625%, 10/31/17 (1)	1,325	1,322
		1,322
<b>Technology 1.7%</b>		
Anstock II 2.125%, 7/24/17	905	906
Apple 1.70%, 2/22/19	515	516
Baidu 2.75%, 6/9/19	1,005	1,020
Fidelity National Information Services 1.45%, 6/5/17	130	130
Fidelity National Information Services 2.25%, 8/15/21	780	759
Hewlett Packard Enterprise STEP, 2.45%, 10/5/17	1,980	1,991
Hewlett Packard Enterprise STEP, 2.85%, 10/5/18	90	91
Keysight Technologies 3.30%, 10/30/19	550	558
Seagate Tech 3.75%, 11/15/18	420	430
Tencent Holdings 2.00%, 5/2/17 (1)	245	245
Tencent Holdings 2.875%, 2/11/20 (1)	255	256
Xerox 2.95%, 3/15/17	80	80
		6,982
<b>Transportation 1.0%</b>		
ERAC USA Finance 2.80%, 11/1/18 (1)	30	30
ERAC USA Finance 6.375%, 10/15/17 (1)	185	192
HPHT Finance 15 2.25%, 3/17/18 (1)	660	661
J.B. Hunt Transportation Services, 2.40%, 3/15/19	80	80
Kansas City Southern 2.35%, 5/15/20	285	281
Penske Truck Leasing 2.875%, 7/17/18 (1)	1,100	1,114

	Par/Shares	\$ Value
(Amounts in 000s)		
Penske Truck Leasing 3.375%, 3/15/18 (1)	1,140	1,159
Penske Truck Leasing 3.75%, 5/11/17 (1)	230	232
Southwest Airlines 2.75%, 11/6/19	320	326
		4,075
Total Industrial		<b>106,837</b>
<b>Utility 2.3%</b>		
<b>Electric 2.3%</b>		
Dominion Resources 1.50%, 9/30/18 (1)	395	391
Dominion Resources 2.125%, 2/15/18 (1)	1,125	1,127
Dominion Resources, STEP 2.962%, 7/1/19	240	243
Exelon 1.55%, 6/9/17	340	340
Exelon Generation 2.95%, 1/15/20	245	248
FirstEnergy 2.75%, 3/15/18	440	444
Monongahela Power 5.70%, 3/15/17 (1)	45	45
National Rural Utilities Cooperative Finance 1.65%, 2/8/19	275	274
NextEra Energy Capital Holdings 1.649%, 9/1/18	290	289
NextEra Energy Capital Holdings 2.056%, 9/1/17	220	221
NextEra Energy Capital Holdings 2.30%, 4/1/19	285	287
Northeast Utilities 1.60%, 1/15/18	415	414
Origin Energy Finance 3.50%, 10/9/18 (1)	705	709
PPL Capital Funding 1.90%, 6/1/18	100	100
San Diego Gas & Electric 1.914%, 2/1/22	212	209
Southern 1.55%, 7/1/18	270	270
Southern 1.85%, 7/1/19	955	951

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Southern		
2.35%, 7/1/21	210	206
Southern Power		
1.85%, 12/1/17	210	211
Teco Finance, VR		
1.476%, 4/10/18	715	714
Zhejiang Provincial Energy		
2.30%, 9/30/17	1,575	1,578
		9,271
<b>Natural Gas 0.0%</b>		
NiSource Finance		
6.40%, 3/15/18	20	21
		21
Total Utility		<b>9,292</b>
<b>Total Corporate Bonds</b>		
<b>(Cost \$192,095)</b>		<b>192,018</b>

**ASSET-BACKED SECURITIES 21.9%**
**Car Loan 12.5%**

Ally Auto Receivable Trust		
Series 2015-1, Class A4		
1.75%, 5/15/20	175	176
Ally Master Owner Trust		
Series 2012-5, Class A		
1.54%, 9/15/19	2,315	2,318
AmeriCredit Automobile		
Receivables Trust, Series		
2013-5, Class B		
1.52%, 1/8/19	71	71
AmeriCredit Automobile		
Receivables Trust		
Series 2014-2, Class B		
1.60%, 7/8/19	1,165	1,166
AmeriCredit Automobile		
Receivables Trust		
Series 2014-3, Class C		
2.58%, 9/8/20	205	207
AmeriCredit Automobile		
Receivables Trust		
Series 2014-4, Class C		
2.47%, 11/9/20	340	343
AmeriCredit Automobile		
Receivables Trust		
Series 2015-1, Class A3		
1.26%, 11/8/19	587	587

	Par/Shares	\$ Value
(Amounts in 000s)		
AmeriCredit Automobile		
Receivables Trust, Series		
2015-2, Class A3		
1.27%, 1/8/20	481	481
AmeriCredit Automobile		
Receivables Trust		
Series 2015-4, Class A3		
1.70%, 7/8/20	380	381
AmeriCredit Automobile		
Receivables Trust		
Series 2016-1, Class A3		
1.81%, 10/8/20	140	140
AmeriCredit Automobile		
Receivables Trust		
Series 2016-1, Class C		
2.89%, 1/10/22	795	805
AmeriCredit Automobile		
Receivables Trust		
Series 2016-4, Class A3		
1.53%, 7/8/21	605	601
ARI Fleet Lease Trust		
Series 2014-A, Class A2		
0.81%, 11/15/22 <sup>(1)</sup>	28	28
ARI Fleet Lease Trust		
Series 2015-A, Class A2		
1.11%, 11/15/18 <sup>(1)</sup>	284	283
ARI Fleet Lease Trust		
Series 2015-A, Class A3		
1.67%, 9/15/23 <sup>(1)</sup>	625	623
ARI Fleet Lease Trust		
Series 2016-A, Class A2		
1.82%, 7/15/24 <sup>(1)</sup>	1,045	1,045
Avis Budget Rental Car		
Funding, Series 2013-2A		
Class B		
3.66%, 2/20/20 <sup>(1)</sup>	400	406
Avis Budget Rental Car		
Funding, Series 2014-2A		
Class A		
2.50%, 2/20/21 <sup>(1)</sup>	320	319
BMW Vehicle Lease Trust		
Series 2016-2, Class A3		
1.43%, 9/20/19	340	340
Capital Auto Receivables		
Asset Trust, Series 2013-		
4, Class D, 3.22%,		
5/20/19	265	269
Capital Auto Receivables		
Asset Trust, Series 2014-		
1, Class A3		
1.32%, 6/20/18	62	62



## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Capital Auto Receivables Asset Trust, Series 2014- 2, Class A3		
1.26%, 5/21/18	53	53
Capital Auto Receivables Asset Trust, Series 2014- 3, Class A3		
1.48%, 11/20/18	132	132
Capital Auto Receivables Asset Trust, Series 2015- 2, Class A2		
1.39%, 9/20/18	120	120
Capital Auto Receivables Asset Trust, Series 2015- 2, Class A3		
1.73%, 9/20/19	250	251
Capital Auto Receivables Asset Trust, Series 2015- 3, Class A3		
1.94%, 1/21/20	895	899
Capital Auto Receivables Asset Trust, Series 2015- 4, Class A2		
1.62%, 3/20/19	580	581
Capital Auto Receivables Asset Trust, Series 2016- 1, Class A3		
1.73%, 4/20/20	425	425
Capital Auto Receivables Asset Trust, Series 2016- 2, Class A4		
1.63%, 1/20/21	280	277
Capital Auto Receivables Asset Trust, Series 2016- 3, Class A3		
1.54%, 8/20/20	190	189
CarMax Auto Owner Trust Series 2013-2, Class A4		
0.84%, 11/15/18	1,709	1,707
CarMax Auto Owner Trust Series 2014-1, Class B		
1.69%, 8/15/19	35	35
CarMax Auto Owner Trust Series 2014-1, Class C		
1.93%, 11/15/19	50	50
CarMax Auto Owner Trust Series 2014-4, Class A3		
1.25%, 11/15/19	268	267
CarMax Auto Owner Trust Series 2014-4, Class A4		
1.81%, 7/15/20	220	221

	Par/Shares	\$ Value
(Amounts in 000s)		
CarMax Auto Owner Trust Series 2015-1, Class A3		
1.38%, 11/15/19	1,632	1,633
CarMax Auto Owner Trust Series 2015-2, Class A3		
1.37%, 3/16/20	425	425
CarMax Auto Owner Trust Series 2016-1, Class A3		
1.61%, 11/16/20	885	885
CarMax Auto Owner Trust Series 2016-4, Class A3		
1.40%, 8/15/21	235	232
Chrysler Capital Auto Receivables Trust, Series 2016-BA, Class A2		
1.36%, 1/15/20 <sup>(1)</sup>	205	205
Chrysler Capital Auto Receivables Trust, Series 2016-BA, Class A3		
1.64%, 7/15/21 <sup>(1)</sup>	190	188
Enterprise Fleet Financing Series 2014-1, Class A2		
0.87%, 9/20/19 <sup>(1)</sup>	9	9
Enterprise Fleet Financing Series 2014-2, Class A2		
1.05%, 3/20/20 <sup>(1)</sup>	184	184
Enterprise Fleet Financing Series 2015-1, Class A2		
1.30%, 9/20/20 <sup>(1)</sup>	290	290
Enterprise Fleet Financing Series 2015-2, Class A2		
1.59%, 2/22/21 <sup>(1)</sup>	855	855
Enterprise Fleet Financing Series 2016-1, Class A2		
1.83%, 9/20/21 <sup>(1)</sup>	1,929	1,930
Enterprise Fleet Financing Series 2016-2, Class A2		
1.74%, 2/22/22 <sup>(1)</sup>	420	419
Ford Credit Auto Owner Trust, Series 2015-B Class A3		
1.16%, 11/15/19	863	862
Ford Credit Auto Owner Trust, Series 2015-C Class A3		
1.41%, 2/15/20	1,180	1,180
Ford Credit Auto Owner Trust, Series 2016-A Class A3		
1.39%, 7/15/20	310	310

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Ford Credit Floorplan Master Owner, Series 2014-1, Class A1 1.20%, 2/15/19	2,300	2,300
Ford Credit Floorplan Master Owner, Series 2014-4, Class A1 1.40%, 8/15/19	660	660
Ford Credit Floorplan Master Owner, Series 2015-1, Class A1 1.42%, 1/15/20	505	505
Ford Credit Floorplan Master Owner, Series 2016-3, Class A1 1.55%, 7/15/21	595	589
Ford Credit Floorplan Master Owner, Series 2016-3, Class B 1.75%, 7/15/21	285	282
General Motors Floorplan Owner Revolving Trust Series 2015-1, Class A1 1.65%, 5/15/20 (1)	440	440
General Motors Floorplan Owner Revolving Trust Series 2016-1, Class B 2.41%, 5/17/21 (1)	150	149
General Motors Floorplan Owner Revolving Trust Series 2016-1, Class C 2.85%, 5/17/21 (1)	100	99
General Motors Financial Automobile Leasing Trust, Series 2016-1 Class A3 1.64%, 7/20/19	1,080	1,081
Hyundai Auto Lease Securitization Trust Series 2014-B, Class A4 1.26%, 9/17/18 (1)	221	221
Hyundai Auto Lease Securitization Trust Series 2015-A, Class A4 1.65%, 8/15/19 (1)	735	737
Hyundai Auto Lease Securitization Trust Series 2015-B, Class A3 1.40%, 11/15/18 (1)	805	806

	Par/Shares	\$ Value
(Amounts in 000s)		
Hyundai Auto Lease Securitization Trust Series 2016-A, Class A3 1.60%, 7/15/19 (1)	615	616
Hyundai Auto Lease Securitization Trust Series 2016-B, Class A3 1.52%, 10/15/19 (1)	255	255
Hyundai Auto Lease Securitization Trust Series 2016-B, Class A4 1.68%, 4/15/20 (1)	100	100
Hyundai Auto Lease Securitization Trust Series 2016-C, Class A4 1.65%, 7/15/20 (1)	465	461
Hyundai Auto Receivables Trust, Series 2013-A Class A4, 0.75%, 9/17/18	44	44
Hyundai Auto Receivables Trust, Series 2015-A Class A3, 1.05%, 4/15/19	495	495
Hyundai Auto Receivables Trust, Series 2016-A Class A3, 1.56%, 9/15/20	105	105
Mercedes-Benz Auto Lease Trust, Series 2015-A Class A3, 1.10%, 8/15/17	39	39
Mercedes-Benz Auto Lease Trust, Series 2016-A, Class A3, 1.52%, 3/15/19	705	706
Mercedes-Benz Auto Lease Trust, Series 2016-B, Class A3, 1.35%, 8/15/19	250	249
Mercedes-Benz Auto Receivables Trust Series 2015-1, Class A3 1.34%, 12/16/19	725	725
Nissan Auto Lease Trust Series 2015-A, Class A3 1.40%, 6/15/18	1,435	1,436
Nissan Auto Lease Trust Series 2016-B, Class A4 1.61%, 1/18/22	435	432
Nissan Auto Receivables Owner Trust, Series 2013-A, Class A4 0.75%, 7/15/19	139	139
Nissan Auto Receivables Owner Trust, Series 2013-B, Class A4 1.31%, 10/15/19	1,830	1,832

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Nissan Auto Receivables Owner Trust, Series 2015-B, Class A3 1.34%, 3/16/20	725	724
Nissan Auto Receivables Owner Trust, Series 2016-A, Class A3 1.34%, 10/15/20	530	528
Nissan Master Owner Trust Receivables, Series 2015- A, Class A2 1.44%, 1/15/20	480	480
Santander Drive Auto Receivables Trust, Series 2014-3, Class D 2.65%, 8/17/20	90	91
Santander Drive Auto Receivables Trust, Series 2015-3, Class D 3.49%, 5/17/21	195	199
Santander Drive Auto Receivables Trust, Series 2015-5, Class D 3.65%, 12/15/21	100	102
Smart Trust Australia Series 2013-2US, Class A4A, 1.18%, 2/14/19	628	626
Smart Trust Australia Series 2014-1US, Class A3A, 0.95%, 2/14/18	34	34
Smart Trust Australia Series 2015-3US, Class A3A, 1.66%, 8/14/19	935	932
Smart Trust Australia Series 2016-2US, Class A2A, 1.45%, 8/14/19	1,170	1,167
Suntrust Auto Receivables Trust, Series 2015-1A Class A3 1.42%, 9/16/19 (1)	1,435	1,435
Toyota Auto Receivables Owner Trust, Series 2015-C, Class C4 1.69%, 12/15/20	490	491
Volkswagen Auto Loan Enhanced Trust, Series 2014-2, Class A4 1.39%, 5/20/21	345	342
Volkswagen Credit Auto Master Trust, Series 2014-1A, Class A2 1.40%, 7/22/19 (1)	315	315

	Par/Shares	\$ Value
(Amounts in 000s)		
Wheels, Series 2014-1A Class A2 0.84%, 3/20/23 (1)	23	23
Wheels, Series 2015-1A Class A2 1.27%, 4/22/24 (1)	234	233
Wheels, Series 2016-1A Class A2 1.59%, 5/20/25 (1)	200	199
World Omni Auto Lease Securitization Trust Series 2014-A, Class A4 1.37%, 1/15/20	150	150
World Omni Auto Lease Securitization Trust Series 2015-A, Class A3 1.34%, 5/15/20	190	190
World Omni Auto Lease Securitization Trust Series 2016-A, Class A3 1.45%, 8/15/19	775	773
		50,002
<b>Credit Card 3.8%</b>		
American Express Credit Account Master Trust Series 2014-2, Class A 1.26%, 1/15/20	150	150
Barclay's Dryrock Issuance Trust, Series 2015-2 Class A, 1.56%, 3/15/21	1,455	1,455
Barclays Drydock Issuance Trust, Series 2014-2 Class A, VR 1.044%, 3/16/20	395	395
Cabela's Credit Card Master Trust, Series 2012-1A, Class A1 1.63%, 2/18/20 (1)	2,300	2,302
Cabela's Credit Card Master Trust, Series 2014-1, Class A, VR 1.054%, 3/16/20	135	135
Discover Card Master Trust I, Series 2014-A5, Class A 1.39%, 4/15/20	350	351
Discover Card Master Trust I, Series 2015-A3, Class A 1.45%, 3/15/21	1,490	1,487
Discover Card Master Trust I, Series 2016-A1 Class A1, 1.64%, 7/15/21	2,195	2,194

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Discover Card Master Trust I, Series 2016-A4 Class A4		
1.39%, 3/15/22	795	786
GE Capital Credit Card Master Note Trust, Series 2012-6, Class A		
1.36%, 8/17/20	2,315	2,316
Synchrony Credit Card Master Note Trust, Series 2013-1, Class B		
1.69%, 3/15/21	515	514
Synchrony Credit Card Master Note Trust, Series 2014-1, Class A		
1.61%, 11/15/20	775	776
Synchrony Credit Card Master Note Trust, Series 2015-1, Class B		
2.64%, 3/15/23	395	395
Synchrony Credit Card Master Note Trust, Series 2015-2, Class A		
1.60%, 4/15/21	1,860	1,861
		15,117
<b>Other Asset-Backed Securities 5.3%</b>		
Ascentium Equipment Receivables, Series 2015-2A, Class A3		
1.93%, 3/11/19 (1)	1,200	1,204
Ascentium Equipment Receivables, Series 2016-2A, Class A2		
1.46%, 4/10/19 (1)	230	229
CCG Receivables Trust Series 2014-1, Class A2		
1.06%, 11/15/21 (1)	45	45
CCG Receivables Trust Series 2015-1, Class A2		
1.46%, 11/14/18 (1)	936	936
CCG Receivables Trust Series 2016-1, Class A2		
1.69%, 9/14/22 (1)	320	320
CNH Equipment Trust Series 2013-C, Class A3		
1.02%, 8/15/18	26	26
CNH Equipment Trust Series 2016-6, Class A3		
1.44%, 12/15/21	410	406

	Par/Shares	\$ Value
(Amounts in 000s)		
CNH Equipment Trust Series 2014-C, Class A3		
1.05%, 11/15/19	120	120
CNH Equipment Trust Series 2015-B, Class A3		
1.37%, 7/15/20	720	720
CNH Equipment Trust Series 2016-A, Class A3		
1.48%, 4/15/21	1,245	1,239
DB Master Finance, Series 2015-1A, Class A2I		
3.262%, 2/20/45 (1)	761	762
Diamond Resorts Owner Trust, Series 2013-2 Class A		
2.27%, 5/20/26 (1)	145	144
Diamond Resorts Owner Trust, Series 2014-1 Class A		
2.54%, 5/20/27 (1)	161	160
Diamond Resorts Owner Trust, Series 2015-1 Class A		
2.73%, 7/20/27 (1)	150	149
Diamond Resorts Owner Trust, Series 2015-2 Class A		
2.99%, 5/22/28 (1)	241	239
Elara HGV Timeshare Issuer, Series 2014-A Class A		
2.53%, 2/25/27 (1)	56	55
GE Dealer Floorplan Master Note Trust, Series 2014-2, Class A, VR		
1.189%, 10/20/19	260	260
GreatAmerica Leasing Receivables, Series 2014-1, Class A3		
0.89%, 7/15/17 (1)	10	10
GreatAmerica Leasing Receivables, Series 2016-1, Class A3		
1.73%, 6/20/19 (1)	1,235	1,233
Hilton Grand Vacation Trust, Series 2014-AA Class A		
1.77%, 11/25/26 (1)	1,047	1,028
John Deere Owner Trust Series 2015-A, Class A3		
1.32%, 6/17/19	200	200

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
John Deere Owner Trust Series 2015-A, Class A4 1.65%, 12/15/21	1,359	1,362
John Deere Owner Trust Series 2015-B, Class A3 1.44%, 10/15/19	870	871
John Deere Owner Trust Series 2016-A, Class A3 1.36%, 4/15/20	615	613
John Deere Owner Trust Series 2016-B, Class A3 1.25%, 6/15/20	350	348
John Deere Owner Trust Series 2016-B, Class A4 1.49%, 5/15/23	170	168
Kubota Credit Owner Trust, Series 2015-1A Class A3 1.54%, 3/15/19 (1)	690	691
Kubota Credit Owner Trust, Series 2016-1A Class A3 1.50%, 7/15/20 (1)	245	243
Marriot Vacation Club Owner Trust, Series 2015-1A, Class A 2.52%, 12/20/32 (1)	609	605
Marriott Vacation Club Owner Trust, Series 2014-1A, Class A 2.25%, 9/22/31 (1)	79	78
Marriott Vacation Club Owner Trust, Series 2013- 1A, Class A 2.15%, 4/22/30 (1)	732	725
MMAF Equipment Finance, Series 2014-AA Class A3 0.87%, 1/8/19 (1)	409	409
MMAF Equipment Finance, Series 2015-AA Class A3 1.39%, 10/16/19 (1)	265	265
MMAF Equipment Finance, Series 2016-AA Class A3 1.48%, 6/15/20 (1)	405	403
Sierra Receivables Funding Series 2014-2A, Class A 2.05%, 6/20/31 (1)	43	43

	Par/Shares	\$ Value
(Amounts in 000s)		
Sierra Receivables Funding Series 2014-3A, Class A 2.30%, 10/20/31 (1)	117	117
Sierra Receivables Funding Series 2015-1A, Class A 2.40%, 3/22/32 (1)	559	556
Sierra Receivables Funding Series 2015-2A, Class A 2.43%, 6/20/32 (1)	246	246
Sierra Receivables Funding Series 2015-3A, Class A 2.58%, 9/20/32 (1)	94	93
Sierra Receivables Funding Series 2016-2A, Class A 2.33%, 7/20/33 (1)	289	284
Springleaf Funding Trust Series 2016-AA, Class A 2.90%, 11/15/29 (1)	270	269
Verizon Owner Trust Series 2016-2A, Class A 1.68%, 5/20/21 (1)	755	752
Verizon Owner Trust Series 2016-2A, Class B 2.15%, 5/20/21 (1)	520	516
Verizon Owner Trust Series 2016-2A, Class C 2.36%, 5/20/21 (1)	405	402
Volvo Financial Equipment, Series 2016- 1A, Class A3 1.67%, 2/18/20 (1)	310	310
Wendy's Funding, Series 2015-1A, Class A21 3.371%, 6/15/45 (1)	1,412	1,410
		21,264
<b>Student Loan 0.2%</b>		
SLM Student Loan Trust Series 2008-4, Class A4 VR, 2.532%, 7/25/22	95	95
SLM Student Loan Trust Series 2008-5, Class A4 VR, 2.582%, 7/25/23	445	448
SLM Student Loan Trust Series 2008-9, Class A VR, 2.382%, 4/25/23	311	311
		854

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>Whole Business 0.1%</b>		
Dominos Pizza Master Issuer, Series 2012-1A Class A2 5.216%, 1/25/42 (1)	597	609
		609
<b>Total Asset-Backed Securities (Cost \$87,993)</b>		<b>87,846</b>
<b>NON-U.S. GOVERNMENT MORTGAGE-BACKED SECURITIES 7.8%</b>		
<b>Collateralized Mortgage Obligations 1.4%</b>		
Bank of America Mortgage Securities, Series 2004-A Class 2A2, CMO, ARM 2.984%, 2/25/34	20	20
Connecticut Avenue Securities, Series 2016- C07, Class 2M1, CMO ARM, 2.056%, 4/25/29	407	408
Connecticut Avenue Securities, Series 2014- C04, Class 2M1, CMO ARM, 2.856%, 11/25/24	2	2
Connecticut Avenue Securities, Series 2016- C02, Class 1M1, CMO ARM, 2.856%, 8/25/28	1,026	1,035
Connecticut Avenue Securities, Series 2016- C02, Class 1M1, CMO ARM, 2.906%, 9/25/28	166	167
Goldmand Sachs Mortgage- Backed Securities Trust Series 2014-EB1A, Class 2A1 CMO, ARM 2.48%, 7/25/44 (1)	103	102
Mill City Mortgage Trust Series 2016-1, Class A CMO, ARM 2.50%, 4/25/57 (1)	206	205
Structured Agency Credit Risk Debt Notes, Series 2014-HQ2, Class M1 CMO, ARM 2.206%, 9/25/24	69	70

	Par/Shares	\$ Value
(Amounts in 000s)		
Structured Agency Credit Risk Debt Notes, Series 2015-DNA1, Class M1 CMO, ARM 1.656%, 10/25/27	198	198
Structured Agency Credit Risk Debt Notes, Series 2015-DNA3, Class M1 CMO, ARM 2.106%, 4/25/28	125	125
Structured Agency Credit Risk Debt Notes, Series 2015-HQ2, Class M1 CMO, ARM 1.856%, 5/25/25	99	99
Structured Agency Credit Risk Debt Notes, Series 2015-HQA2, Class M1 CMO, ARM 1.906%, 5/25/28	34	34
Structured Agency Credit Risk Debt Notes, Series 2016-DNA1, Class M1 CMO, ARM 2.206%, 7/25/28	673	675
Structured Agency Credit Risk Debt Notes, Series 2016-HQA1, Class M1 CMO, ARM 2.506%, 9/25/28	194	195
Towd Point Mortgage Trust, Series 2015-4 Class A1B, CMO, ARM 2.75%, 4/25/55 (1)	710	712
Towd Point Mortgage Trust, Series 2015-5 Class A1B, CMO, ARM 2.75%, 5/25/55 (1)	578	579
Towd Point Mortgage Trust, Series 2016-1 Class A1B, CMO, ARM 2.75%, 2/25/55 (1)	350	351
Towd Point Mortgage Trust, Series 2016-1 Class A3B, CMO, ARM 3.00%, 2/25/55 (1)	423	424
Towd Point Mortgage Trust, Series 2016-2 Class A1A, CMO, ARM 2.75%, 8/25/55 (1)	257	256

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
WAMU Mortgage PTC Series 2016-AR12, 2A1 CMO, ARM 3.056%, 9/25/35	18	18
Wells Fargo Mortgage Backed Securities Trust Series 2004-G, A3, CMO ARM, 3.008%, 6/25/34	10	10
		5,685
<b>Commercial Mortgage-Backed Securities 6.3%</b>		
Banc of America Commercial Mortgage Series 2007-4, Class AM ARM, 5.814%, 2/10/51	15	15
Bank of America Merrill Lynch Large Loan, Series 2014-IP, Class A, ARM 2.717%, 6/15/28 (1)	865	871
Citigroup Commercial Mortgage Trust, Series 2013-GC15, Class A1 1.378%, 9/10/46	106	106
Citigroup Commercial Mortgage Trust, Series 2013-GC17, Class A1 1.102%, 11/10/46	214	213
Citigroup Commercial Mortgage Trust, Series 2014-GC19, Class A1 1.199%, 3/10/47	38	38
Citigroup Commercial Mortgage Trust, Series 2014-GC21, Class A1 1.242%, 5/10/47	110	110
Citigroup Commercial Mortgage Trust, Series 2014-GC25, Class A1 1.485%, 10/10/47	22	22
Citigroup Commercial Mortgage Trust, Series 2015-GC27, Class A1 1.353%, 2/10/48	298	297
Citigroup Commercial Mortgage Trust, Series 2015-GC31, Class A1 1.637%, 6/10/48	452	451
Citigroup Commercial Mortgage Trust, Series 2015-GC33, Class A1 1.643%, 9/10/58	824	820

	Par/Shares	\$ Value
(Amounts in 000s)		
Commercial Mortgage PTC Series 2014-CR15, Class A1, 1.218%, 2/10/47	297	296
Commercial Mortgage PTC Series 2014-CR17, Class A1, 1.275%, 5/10/47	85	85
Commercial Mortgage PTC Series 2014-CR19, Class A1, 1.415%, 8/10/47	100	99
Commercial Mortgage PTC Series 2014-CR20, Class A1, 1.324%, 11/10/47	36	35
Commercial Mortgage PTC Series 2014-CR21, Class A1, 1.494%, 12/10/47	70	70
Commercial Mortgage PTC Series 2014-LC15, Class A1, 1.259%, 4/10/47	131	131
Commercial Mortgage PTC Series 2014-LC17, Class A1, 1.381%, 10/10/47	55	55
Commercial Mortgage PTC Series 2014-TWC Class A, ARM 1.53%, 2/13/32 (1)	130	130
Commercial Mortgage PTC Series 2014-UBS2, Class A1, 1.298%, 3/10/47	111	110
Commercial Mortgage PTC Series 2014-UBS4, Class A1, 1.309%, 8/10/47	16	17
Commercial Mortgage PTC Series 2014-UBS5, Class A1, 1.373%, 9/10/47	97	97
Commercial Mortgage PTC Series 2014-UBS6, Class A1, 1.445%, 12/10/47	141	141
Commercial Mortgage PTC Series 2015-CR22, Class A1, 1.569%, 3/10/48	121	121
Commercial Mortgage PTC Series 2015-CR24, Class A1, 1.652%, 8/10/48	294	294
Commercial Mortgage PTC Series 2015-CR26, Class A1, 1.604%, 10/10/48	1,931	1,924
Commercial Mortgage PTC Series 2015-LC23, Class A2, 3.221%, 10/10/53	1,025	1,055
Commercial Mortgage PTC Series 2015-PC1, Class A1, 1.667%, 7/10/50	540	541



## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
Commercial Mortgage PTC Series 2016-CR28, Class A1, 1.77%, 2/10/49	265	265
CSAIL Commercial Mortgage Trust, Series 2015-C1, Class A1 1.684%, 4/15/50	194	194
CSAIL Commercial Mortgage Trust, Series 2015-C2, Class A1 1.454%, 6/15/57	803	799
CSAIL Commercial Mortgage Trust, Series 2015-C3, Class A1 1.717%, 8/15/48	197	196
CSAIL Commercial Mortgage Trust, Series 2016-C5, Class A1 1.747%, 11/15/48	274	273
Goldman Sachs Mortgage Securities Corp. II, Series 2014-GC20, Class A1 1.343%, 4/10/47	180	180
Goldman Sachs Mortgage Securities Corp. II, Series 2014-GC22, Class A1 1.29%, 6/10/47	95	95
Goldman Sachs Mortgage Securities Trust, Series 2014-GC24, Class A1 1.509%, 9/10/47	154	154
Goldman Sachs Mortgage Securities Trust, Series 2015-GC32, Class A1 1.528%, 2/10/48	557	555
Goldman Sachs Mortgage Securities Trust, Series 2015-GS3, Class A1 1.593%, 7/10/48	197	196
Goldman Sachs Mortgage Securities Trust, Series 2016-GS3, Class A1 1.429%, 10/10/49	135	133
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2014-C19, Class A1, 1.266%, 4/15/47	58	58

	Par/Shares	\$ Value
(Amounts in 000s)		
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2014-C22, Class A1, 1.451%, 9/15/47	29	29
JPMorgan Chase Barclays Bank, Commercial Mortgage Securities Series 2014-C23 Class A1, 1.65%, 9/15/47	54	54
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2014-C24, Class A1, 1.539%, 11/15/47	21	21
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2014-C26, Class A1, 1.596%, 1/15/48	424	424
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2015-C27 Class A1 1.414%, 2/15/48	472	469
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2015-C28, Class A1, 1.445%, 10/15/48	451	448
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2015-C29, Class A1, 1.626%, 5/15/48	217	216
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2015-C30, Class A1, 1.738%, 7/15/48	774	772
JPMorgan Chase Barclays Bank Commercial Mortgage Securities Series 2016-JP3, Class A1 1.462%, 8/15/49	411	405
JPMorgan Chase Commercial Mortgage Securities, Series 2006- LDP7, Class AM, ARM 5.925%, 4/17/45	67	67



## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
JPMorgan Chase Commercial Mortgage Securities, Series 2007- CB18, Class A4 5.44%, 6/12/47	150	150
JPMorgan Chase Commercial Mortgage Securities, Series 2014- C20, Class A1 1.268%, 7/15/47	86	86
ML CFC Commercial Mortgage Trust, Series 2007-6, Class A4, ARM 5.485%, 3/12/51	882	884
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2014-C14 Class A1, 1.25%, 2/25/47	74	74
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2014-C16 Class A1 1.294%, 6/15/47	57	57
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2014-C17 Class A1 1.551%, 8/15/47	31	31
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2014-C18 Class A1 1.686%, 10/15/47	71	71
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2014-C19 Class A1 1.573%, 12/15/47	258	257
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2015-C24 A1, 1.706%, 5/15/48	298	297
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2016-C30 Class A1 1.389%, 9/15/49	218	215
Morgan Stanley Capital I Series 2007-IQ15, Class A4, ARM 5.902%, 6/11/49	779	791

	Par/Shares	\$ Value
(Amounts in 000s)		
Morgan Stanley Capital I Series 2015-MS1, Class A1, 1.638%, 5/15/48	309	308
Wells Fargo Commercial Mortgage Trust, Series 2013-LC12, Class A1 1.676%, 7/15/46	1,797	1,800
Wells Fargo Commercial Mortgage Trust, Series 2014-LC18, Class A1 1.437%, 12/15/47	306	305
Wells Fargo Commercial Mortgage Trust, Series 2015-C26, A1 1.454%, 2/15/48	244	243
Wells Fargo Commercial Mortgage Trust, Series 2015-C27, Class A1 1.73%, 2/15/48	673	673
Wells Fargo Commercial Mortgage Trust, Series 2015-C28, Class A1 1.531%, 5/15/48	247	246
Wells Fargo Commercial Mortgage Trust, Series 2015-LC20, Class A1 1.471%, 4/15/50	245	244
Wells Fargo Commercial Mortgage Trust, Series 2015-NXS1, Class A1 1.342%, 5/15/48	188	187
Wells Fargo Commercial Mortgage Trust, Series 2015-NXS2, Class A2 3.02%, 7/15/58	640	655
Wells Fargo Commercial Mortgage Trust, Series 2016-C32, Class A1 1.577%, 1/15/59	893	886
Wells Fargo Commercial Mortgage Trust, Series 2016-LC24 1.441%, 10/15/49	244	242
WF-RBS Commercial Mortgage Trust, Series 2013-UBS1, Class A1 1.122%, 3/15/46	49	49
WF-RBS Commercial Mortgage Trust, Series 2014-C20, Class A1 1.283%, 5/15/47	162	162

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
WF-RBS Commercial Mortgage Trust, Series 2014-C21, Class A1 1.413%, 8/15/47	76	76
WF-RBS Commercial Mortgage Trust, Series 2014-C22, Class A1 1.479%, 9/15/57	95	95
WF-RBS Commercial Mortgage Trust, Series 2014-C23, Class A1 1.663%, 10/15/57	1,760	1,762
WF-RBS Commercial Mortgage Trust, Series 2014-LC14, Class A1 1.193%, 3/15/47	103	103
		25,096
<b>Home Equity 0.1%</b>		
Bank Boston Home Equity Loan Trust, Series 1998- 2, Class A6, ARM 6.64%, 12/25/28	37	37
Chase Funding Mortgage Loan, Series 2002-4 Class 2A1, ARM 1.496%, 10/25/32	22	21
Nationstar Home Equity Loan Trust, Series 2016- 1A, Class A 2.981%, 2/25/26 (1)	185	185
Nationstar Home Equity Loan Trust, Series 2016- 2A, Class A 2.239%, 6/25/26 (1)	225	226
Nationstar Home Equity Loan Trust, Series 2016- 3A, Class A 2.013%, 8/25/26 (1)	108	108
Residential Asset Mortgage Products, Series 2003- RZ2, Class A1, ARM 4.10%, 4/25/33	14	14
		591
<b>Total Non-U.S. Government Mortgage-Backed Securities (Cost \$31,578)</b>		<b>31,372</b>

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>U.S. GOVERNMENT &amp; AGENCY MORTGAGE- BACKED SECURITIES 7.8%</b>		
<b>U.S. Government Agency Obligations 7.2% (2)</b>		
Federal Home Loan Mortgage 1.369%, 5/25/19	67	67
1.426%, 8/25/17	153	153
2.059%, 3/25/20	461	464
3.50%, 3/1/46	1,635	1,679
4.00%, 8/1/26	145	151
5.00%, 10/1/18 - 7/1/25	210	225
5.50%, 4/1/23 - 10/1/38	53	58
6.00%, 4/1/17 - 1/1/38	331	371
Federal Home Loan Mortgage, ARM 2.598%, 1/1/36	3	3
2.662%, 1/1/36	45	47
2.714%, 2/1/37	22	23
2.75%, 4/1/37	40	42
2.752%, 2/1/35	27	28
2.786%, 6/1/38	56	60
2.801%, 10/1/36	8	9
2.841%, 9/1/35	18	19
2.875%, 7/1/38	31	33
2.913%, 5/1/37	24	25
2.935%, 5/1/38	34	36
2.94%, 1/1/37	7	8
2.959%, 10/1/36	75	80
2.976%, 7/1/35	12	13
3.169%, 2/1/38	54	57
3.40%, 11/1/35	8	8
3.486%, 11/1/36	4	5
Federal Home Loan Mortgage CMO, 4.00%, 11/15/36	250	264
Federal National Mortgage Assn. 3.00%, 1/1/27 - 3/1/30	2,320	2,384
3.50%, 11/1/26 - 1/1/46	5,344	5,535
4.00%, 5/1/24 - 11/1/43	1,753	1,850
4.50%, 6/1/19 - 12/1/45	4,465	4,768
5.00%, 7/1/19 - 10/1/41	3,804	4,149
5.50%, 1/1/17 - 7/1/41	1,742	1,934
6.00%, 9/1/21 - 4/1/40	1,600	1,813
6.50%, 7/1 - 12/1/32	193	223
Federal National Mortgage Assn., ARM 2.786%, 7/1/35	10	10
2.832%, 7/1/36	42	44
2.876%, 9/1/37	48	51
2.913%, 5/1/38	50	53
2.95%, 5/1/38	69	73

## T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
2.955%, 4/1/38	38	40
2.965%, 12/1/35	2	3
3.075%, 12/1/35	16	17
3.103%, 8/1/38	19	20
3.14%, 9/1/36	2	2
3.378%, 1/1/34	29	31
3.395%, 12/1/35	8	8
3.461%, 12/1/35	4	5
3.54%, 12/1/36	22	24
Federal National Mortgage Assn., CMO, VR		
1.256%, 11/25/46	2,178	2,178
		29,143
<b>U.S. Government Obligations 0.6%</b>		
Government National Mortgage Assn.		
3.50%, 3/20/43	175	183
5.00%, 12/20/34 - 3/20/41	845	935
5.50%, 2/20/34	1,039	1,166
		2,284
<b>Total U.S. Government &amp; Agency Mortgage-Backed Securities (Cost \$31,474)</b>		<b>31,427</b>
<b>U.S. GOVERNMENT AGENCY OBLIGATIONS (EXCLUDING MORTGAGE-BACKED) 8.8%</b>		
<b>U.S. Treasury Obligations 8.8%</b>		
U.S. Treasury Notes		
0.875%, 7/15/18	1,470	1,465
U.S. Treasury Notes		
0.875%, 10/15/18 (3)	4,580	4,558
U.S. Treasury Notes		
1.00%, 11/15/19	13,815	13,645
U.S. Treasury Notes		
1.25%, 12/31/18	5,805	5,811
U.S. Treasury Notes		
1.25%, 1/31/20	4,785	4,748
U.S. Treasury Notes		
1.375%, 5/31/21	5,145	5,040
<b>Total U.S. Government Agency Obligations (Excluding Mortgage-Backed) (Cost \$35,532)</b>		<b>35,267</b>

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>FOREIGN GOVERNMENT OBLIGATIONS &amp; MUNICIPALITIES 0.8%</b>		
<b>Owned No Guarantee 0.8%</b>		
CNOOC Finance 2014		
1.625%, 4/30/17	200	200
Electricite de France		
1.15%, 1/20/17 (1)	410	410
Petroleos Mexicanos		
3.125%, 1/23/19	60	60
Petroleos Mexicanos		
3.50%, 7/18/18	175	177
Petroleos Mexicanos		
3.50%, 7/23/20	610	599
Shenhua Overseas Capital		
2.50%, 1/20/18	705	706
Shenhua Overseas Capital		
3.125%, 1/20/20	930	934
<b>Total Foreign Government Obligations &amp; Municipalities (Cost \$3,077)</b>		<b>3,086</b>
<b>MUNICIPAL SECURITIES 0.3%</b>		
<b>California 0.1%</b>		
Univ. of California Regents		
Series Y-1, 1.117%, 7/1/41		
(Tender 7/1/17)	150	150
		150
<b>Florida 0.2%</b>		
Florida State Board of Administration Fin. Corp.		
Series A, 2.163%, 7/1/19	840	846
		846
<b>Total Municipal Securities (Cost \$990)</b>		<b>996</b>

# T. Rowe Price Limited-Term Bond Portfolio

	Par/Shares	\$ Value
(Amounts in 000s)		
<b>SHORT-TERM INVESTMENTS 5.7%</b>		
<b>Certificates of Deposit 0.3%</b>		
<b>Yankee 0.3% (4)</b>		
Credit Suisse New York		
1.753%, 9/12/17	1,015	1,015
		1,015
<b>Commercial Paper 2.9%</b>		
<b>4(2) 2.9% (5)</b>		
Anheuser Busch InBev World		
1.45%, 9/5/17	615	609
Anheuser Busch InBev World		
1.50%, 10/10/17	375	371
AXA Financial		
1.55%, 7/24/17	1,975	1,958
Enbridge Energy Partners		
1.95%, 5/9/17	2,010	1,996
Ford Motor Credit		
1.75, 9/1/17	2,015	1,991
Manhattan Asset Funding		
1.52%, 9/6/17	2,015	1,994
Plains All American Pipeline		
1.55%, 2/15/17	2,160	2,156
VW Credit		
1.75%, 9/18/17	1,060	1,047
		12,122
<b>Money Market Funds 2.5%</b>		
T. Rowe Price Government		
Reserve Fund, 0.43% (6)(7)	9,833	9,833
		9,833
<b>Total Short-Term Investments</b>		
<b>(Cost \$22,970)</b>		<b>22,970</b>
<b>Total Investments in Securities</b>		
101.0% of Net Assets (Cost \$405,709)	<b>\$</b>	<b>404,982</b>

- (2) The issuer currently operates under a federal conservatorship; however, its securities are neither issued nor guaranteed by the U.S. government.
- (3) At December 31, 2016, all or a portion of this security is pledged as collateral and/or margin deposit to cover future funding obligations.
- (4) Yankee certificates of deposit are issued by U.S. branches of foreign banks.
- (5) Commercial paper exempt from registration under Section 4(2) of the Securities Act of 1933 and may be resold in transactions exempt from registration only to dealers in that program or other "accredited investors" -- total value of such securities at period-end amounts to \$12,122 and represents 2.9% of net assets.
- (6) Seven-day yield
- (7) Affiliated Company
- ARM Adjustable Rate Mortgage
- CMO Collateralized Mortgage Obligation
- PTC Pass-Through Certificate
- STEP Stepped coupon bond for which the coupon rate of interest adjusts on specified dates.
- VR Variable Rate; rate shown is effective rate at period-end.

† Par/Shares are denominated in U.S. dollars unless otherwise noted.

- (1) 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 \$80,375 and represents 20.0% of net assets.

T. Rowe Price Limited-Term Bond Portfolio

(Amounts in 000s, except market price)

**SWAPS 0.0%**

	<b>Notional Amount</b>	<b>Market Value</b>	<b>Upfront Premiums Paid/(Received)</b>	<b>Unrealized Gain (Loss)</b>
<b>BILATERAL SWAPS 0.0%</b>				
<b>Credit Default Swaps, Protection Sold 0.0%</b>				
JPMorgan Chase, Protection Sold				
(Relevant Credit: Humana, 6.30%				
8/1/18, \$106.24*), Receive 1.00%				
Pay upon credit default, 12/20/18	340 \$	6 \$	1 \$	5
<b>Total Bilateral Credit Default Swaps, Protection Sold</b>			<b>1</b>	<b>5</b>
<b>Total Bilateral Swaps</b>			<b>\$ 1 \$</b>	<b>5</b>

**\*Market price at December 31, 2016**

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**Futures Contracts**

(\$000s)

	<u>Expiration</u>	<u>Contract Value</u>	<u>Unrealized Gain (Loss)</u>
Short, 107 U.S. Treasury Notes ten year contracts	3/17	\$ (13,298)	\$ 27
Long, 259 U.S. Treasury Notes two year contracts	3/17	56,122	(19)
Net payments (receipts) of variation margin to date			(29)
Variation margin receivable (payable) on open futures contracts			<u>\$ (21)</u>

**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 which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Purchase and sales cost and investment income reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Investment Income</b>	<b>Value 12/31/16</b>	<b>Value 12/31/15</b>
T. Rowe Price Government Reserve Fund +	□	□	\$ 17	\$ 9,833	\$ 12,412
Totals			\$ 17	\$ 9,833	\$ 12,412

+ At December 31, 2015, the underlying fund's name was T. Rowe Price Reserve Investment Fund.

□ Purchase and sale information not shown for cash management funds.

Amounts reflected on the accompanying financial statements include the following amounts related to affiliated companies:

Investment in securities, at cost	\$ 9,833
Dividend income	17
Interest income	—
Investment income	\$ 17
Realized gain (loss) on securities	\$ —
Capital gain distributions from mutual funds	\$ —

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price Limited-Term Bond Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$405,709)	\$	404,982
Interest receivable		1,518
Receivable for shares sold		772
Cash		91
Unrealized gain on bilateral swaps		5
Bilateral swap premiums paid		1
Other assets		30
Total assets		<u>407,399</u>

### Liabilities

Payable for investment securities purchased		6,126
Investment management and administrative fees payable		278
Payable for shares redeemed		31
Variation margin payable on futures contracts		21
Total liabilities		<u>6,456</u>

### NET ASSETS

**\$ 400,943**

### Net Assets Consist of:

Accumulated undistributed net realized loss	\$	(2,790)
Net unrealized loss		(714)
Paid-in capital applicable to 82,882,563 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized		404,447

### NET ASSETS

**\$ 400,943**

### NET ASSET VALUE PER SHARE

#### Limited-Term Bond Class

(\$390,964,320 / 80,811,366 shares outstanding)

**\$ 4.84**

#### Limited-Term Bond - II Class

(\$9,978,751 / 2,071,197 shares outstanding)

**\$ 4.82**

The accompanying notes are an integral part of these financial statements.



## Statement of Operations

T. Rowe Price Limited-Term Bond Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Income	
Interest	\$ 7,263
Dividend	20
Other	9
Total income	7,292
Expenses	
Investment management and administrative expense	2,923
Rule 12b-1 fees - Limited-Term Bond-II Class	24
Total expenses	2,947
Net investment income	4,345
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain (loss)	
Securities	(49)
Futures	(480)
Swaps	3
Net realized loss	(526)
Change in net unrealized gain / loss	
Securities	2,027
Futures	(1)
Swaps	(2)
Change in net unrealized gain / loss	2,024
Net realized and unrealized gain / loss	1,498
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 5,843</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

T. Rowe Price Limited-Term Bond Portfolio

(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment income	\$ 4,345	\$ 2,755
Net realized loss	(526)	(172)
Change in net unrealized gain / loss	2,024	(2,178)
Increase in net assets from operations	5,843	405
Distributions to shareholders		
Net investment income		
Limited-Term Bond Class	(5,543)	(3,699)
Limited-Term Bond-II Class	(105)	(91)
Decrease in net assets from distributions	(5,648)	(3,790)
Capital share transactions*		
Shares sold		
Limited-Term Bond Class	64,640	273,482
Limited-Term Bond-II Class	4,239	15,789
Distributions reinvested		
Limited-Term Bond Class	5,532	3,732
Limited-Term Bond-II Class	105	92
Shares redeemed		
Limited-Term Bond Class	(99,533)	(115,724)
Limited-Term Bond-II Class	(5,403)	(12,977)
Increase (decrease) in net assets from capital share transactions	(30,420)	164,394
<b>Net Assets</b>		
Increase (decrease) during period	(30,225)	161,009
Beginning of period	431,168	270,159
<b>End of period</b>	<b>\$ 400,943</b>	<b>\$ 431,168</b>
Undistributed net investment income	—	—
<b>*Share information</b>		
Shares sold		
Limited-Term Bond Class	13,296	56,158
Limited-Term Bond-II Class	875	3,257
Distributions reinvested		
Limited-Term Bond Class	1,137	766
Limited-Term Bond-II Class	22	19
Shares redeemed		
Limited-Term Bond Class	(20,473)	(23,759)
Limited-Term Bond-II Class	(1,118)	(2,676)
Increase (decrease) in shares outstanding	(6,261)	33,765

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

T. Rowe Price Limited-Term Bond Portfolio

December 31, 2016

T. Rowe Price Fixed Income Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The Limited-Term Bond Portfolio (the fund) is a diversified, open-end management investment company established by the corporation. Shares of the fund currently are offered only through certain insurance companies as an investment medium for both variable annuity contracts and variable life insurance policies. The fund seeks a high level of income consistent with moderate fluctuations in principal value. The fund has two classes of shares: the Limited-Term Bond Portfolio (Limited-Term Bond Class) and the Limited-Term Bond–II (Limited-Term Bond–II Class). Limited-Term Bond–II Class shares are sold through financial intermediaries, which it compensates for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan. Each class has exclusive voting rights on matters related solely to that class; separate voting rights on matters that relate to both classes; and, in all other respects, the same rights and obligations as the other class.

### 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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Paydown gains and losses are recorded as an adjustment to interest income. 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. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Distributions to shareholders are recorded on the ex-dividend date. Income distributions are declared by each class daily and paid monthly. Capital gain distributions are generally declared and paid by the fund annually.

**Class Accounting** Investment income and investment management and administrative expense are allocated to the classes based upon the relative daily net assets of each class's settled shares; realized and unrealized gains and losses are allocated based upon the relative daily net assets of each class's outstanding shares. Limited-Term Bond–II Class pays Rule 12b-1 fees, in an amount not exceeding 0.25% of the class's average daily net assets.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is required for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.

### NOTE 2 - VALUATION

The fund's financial instruments are valued and each class's 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** Debt securities generally are traded in the over-the-counter (OTC) market. Securities with remaining maturities of one year or more at the time of acquisition are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service, which considers the yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Securities with remaining maturities of less than one year at the time of acquisition generally use amortized cost in local currency to approximate fair value. However, if amortized cost is deemed not to reflect fair value or the fund holds a significant amount of such securities with remaining maturities of more than 60 days, the securities are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service. Generally, debt securities are categorized in Level 2 of the fair value hierarchy; however, to the extent the valuations include significant unobservable inputs, the securities would be categorized in Level 3.

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. Financial futures contracts are valued at closing settlement prices and are categorized in Level 1 of the fair value hierarchy. Swaps are valued at prices furnished by independent swap dealers or by an independent pricing service and generally are categorized in Level 2 of the fair value hierarchy; however, if unobservable inputs are significant to the valuation, the swap would be categorized in Level 3. 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 troubled or thinly traded debt instruments, 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, 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 a discount or premium from market value of a similar, freely traded security of the same issuer; discounted cash flows; yield to maturity; 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, 2016:

(\$000s)	Level 1	Level 2	Level 3	Total Value
	Quoted Prices	Significant Observable Inputs	Significant Unobservable Inputs	
<b>Assets</b>				
Investments in Securities, except:	\$ —	\$ 382,012	\$ —	\$ 382,012
Short-Term Investments	9,833	13,137	—	22,970
Total Securities	9,833	395,149	—	404,982
Swaps	—	6	—	6
Total	\$ 9,833	\$ 395,155	\$ —	\$ 404,988
<b>Liabilities</b>				
Futures Contracts	\$ 21	\$ —	\$ —	\$ 21

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2016.

### NOTE 3 - DERIVATIVE INSTRUMENTS

During the year ended December 31, 2016, 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, or to adjust portfolio duration and 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.

The following table summarizes the fair value of the fund's derivative instruments held as of December 31, 2016, and the related location on the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

(\$000s)	Location on Statement of Assets and Liabilities	Fair Value
<b>Assets</b>		
Interest rate derivatives	Futures*	\$ 27
Credit derivatives	Bilateral Swaps, and Premiums	6
Total		<u>\$ 33</u>
<b>Liabilities</b>		
Interest rate derivatives	Futures*	<u>\$ 19</u>

\*The fair value presented includes cumulative gain (loss) on open futures contracts; however, the value reflected on the accompanying Statement of Assets and Liabilities is only the unsettled variation margin receivable (payable) at that date.

Additionally, the amount of gains and losses on derivative instruments recognized in fund earnings during the year ended December 31, 2016, 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		
	Futures	Swaps	Total
<b>Realized Gain (Loss)</b>			
Interest rate derivatives	\$ (480)	\$ —	\$ (480)
Credit derivatives	—	3	3
Total	<u>\$ (480)</u>	<u>\$ 3</u>	<u>\$ (477)</u>
<b>Change in Unrealized Gain / Loss</b>			
Interest rate derivatives	\$ (1)	\$ —	\$ (1)
Credit derivatives	—	(2)	(2)
Total	<u>\$ (1)</u>	<u>\$ (2)</u>	<u>\$ (3)</u>

**Counterparty Risk and Collateral** The fund invests in derivatives in various markets, which expose it to differing levels of counterparty risk. Counterparty risk on exchange-traded and centrally cleared derivative contracts, such as futures, exchange-traded options, and centrally cleared swaps, is minimal because the clearinghouse provides protection against

counterparty defaults. For futures and centrally cleared swaps, the fund is required to deposit collateral in an amount specified by the clearinghouse and the clearing firm (margin requirement), and the margin requirement must be maintained over the life of the contract. Each clearinghouse and clearing firm, in its sole discretion, may adjust the margin requirements applicable to the fund.

Derivatives, such as bilateral swaps, forward currency exchange contracts, and OTC options, that are transacted and settle directly with a counterparty (bilateral derivatives) expose the fund to greater 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 provide 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 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 settled. 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 a 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 transferred the next 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. As of December 31, 2016, no collateral was pledged by either the fund or counterparties for bilateral derivatives. As of December 31, 2016, securities valued at \$137,000 had been posted by the fund for exchange-traded and/or centrally cleared derivatives.

**Futures Contracts** The fund is subject to interest rate risk in the normal course of pursuing its investment objectives and uses futures contracts to help manage such risk. The fund may enter into futures contracts to manage exposure to interest rate and yield curve movements, security prices, foreign currencies, credit quality, and mortgage prepayments; as an efficient means of adjusting exposure to all or part of a target market; to enhance income; as a cash management tool; or to adjust portfolio duration and credit exposure. A futures contract provides for the future sale by one party and purchase by another of a specified amount of a specific underlying financial instrument at an agreed-upon price, date, time, and place. The fund currently invests only in exchange-traded futures, which generally are standardized as to maturity date, underlying financial instrument, and other contract terms. Payments are made or received by the fund each day to settle daily fluctuations in the value of the contract (variation margin), which reflect changes in the value of the underlying financial instrument. Variation margin is recorded as unrealized gain or loss until the contract is closed. The value of a futures contract included in net assets is the amount of unsettled variation margin; net variation margin receivable is reflected as an asset, and net variation margin payable is reflected as a liability on the accompanying Statement of Assets and Liabilities. Risks related to the use of futures contracts include possible illiquidity of the futures markets, contract prices that can be highly volatile and imperfectly correlated to movements in hedged security values and/or interest rates, and potential losses in excess of the fund's initial investment. During the year ended December 31, 2016, the volume of the fund's activity in futures, based on underlying notional amounts, was generally between 2% and 16% of net assets.

**Swaps** The fund is subject to credit risk in the normal course of pursuing its investment objectives and uses swap contracts to help manage such risk. The fund may use swaps in an effort to manage exposure to changes in interest rates, inflation rates, and credit quality; to adjust overall exposure to certain markets; to enhance total return or protect the



value of portfolio securities; to serve as a cash management tool; or to adjust portfolio duration and credit exposure. Swap agreements can be settled either directly with the counterparty (bilateral swap) or through a central clearinghouse (centrally cleared swap). Fluctuations in the fair value of a contract are reflected in unrealized gain or loss and are reclassified to realized gain or loss upon contract termination or cash settlement. Net periodic receipts or payments required by a contract increase or decrease, respectively, the value of the contract until the contractual payment date, at which time such amounts are reclassified from unrealized to realized gain or loss. For bilateral swaps, cash payments are made or received by the fund on a periodic basis in accordance with contract terms; unrealized gain on contracts and premiums paid are reflected as assets and unrealized loss on contracts and premiums received are reflected as liabilities on the accompanying Statement of Assets and Liabilities. For bilateral swaps, premiums paid or received are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. For centrally cleared swaps, payments are made or received by the fund each day to settle the daily fluctuation in the value of the contract (variation margin). Accordingly, the value of a centrally cleared swap included in net assets is the unsettled variation margin; net variation margin receivable is reflected as an asset and net variation margin payable is reflected as a liability on the accompanying Statement of Assets and Liabilities.

Credit default swaps are agreements where one party (the protection buyer) agrees to make periodic payments to another party (the protection seller) in exchange for protection against specified credit events, such as certain defaults and bankruptcies related to an underlying credit instrument, or issuer or index of such instruments. Upon occurrence of a specified credit event, the protection seller is required to pay the buyer the difference between the notional amount of the swap and the value of the underlying credit, either in the form of a net cash settlement or by paying the gross notional amount and accepting delivery of the relevant underlying credit. For credit default swaps where the underlying credit is an index, a specified credit event may affect all or individual underlying securities included in the index and will be settled based upon the relative weighting of the affected underlying security(ies) within the index. Generally, the payment risk for the seller of protection is inversely related to the current market price or credit rating of the underlying credit or the market value of the contract relative to the notional amount, which are indicators of the markets' valuation of credit quality. As of December 31, 2016, the notional amount of protection sold by the fund totaled \$340,000 (0.1% of net assets), which reflects the maximum potential amount the fund could be required to pay under such contracts. Risks related to the use of credit default swaps include the possible inability of the fund to accurately assess the current and future creditworthiness of underlying issuers, the possible failure of a counterparty to perform in accordance with the terms of the swap agreements, potential government regulation that could adversely affect the fund's swap investments, and potential losses in excess of the fund's initial investment.

During the year ended December 31, 2016, the volume of the fund's activity in swaps, 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.

**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.

**Mortgage-Backed Securities** The fund may invest in mortgage-backed securities (MBS or pass-through certificates) that represent an interest in a pool of specific underlying mortgage loans and entitle the fund to the periodic payments of principal and interest from those mortgages. MBS may be issued by government agencies or corporations, or private issuers. Most MBS issued by government agencies are guaranteed; however, the degree of protection differs based on the issuer. MBS are sensitive to changes in economic conditions that affect the rate of prepayments and defaults on the underlying mortgages; accordingly, the value, income, and related cash flows from MBS may be more volatile than other debt instruments.



**Other** Purchases and sales of portfolio securities other than short-term securities aggregated \$121,331,000 and \$123,083,000, respectively, for the year ended December 31, 2016. Purchases and sales of U.S. government securities aggregated \$112,637,000 and \$155,907,000, respectively, for the year ended December 31, 2016.

## 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.

Reclassifications to paid-in capital relate primarily to an over-distribution of taxable income not deemed a return of capital for tax purposes. Reclassifications between income and gain relate primarily to the character of paydown gains and losses on asset-backed securities. For the year ended December 31, 2016, the following reclassifications were recorded to reflect tax character (there was no impact on results of operations or net assets):

---

(\$000s)	
Undistributed net investment income	\$ 1,303
Undistributed net realized gain	(1,135)
Paid-in capital	(168)

Distributions during the years ended December 31, 2016 and December 31, 2015, totaled \$5,648,000 and \$3,790,000, respectively, and were characterized as ordinary income for tax purposes. At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

---

(\$000s)	
Cost of investments	\$ 405,738
Unrealized appreciation	\$ 909
Unrealized depreciation	(1,666)
Net unrealized appreciation (depreciation)	(757)
Capital loss carryforwards	(2,746)
Late-year ordinary loss deferrals	(1)
Paid-in capital	404,447
Net assets	<u>\$ 400,943</u>

The fund intends to retain realized gains to the extent of available capital loss carryforwards. Net realized capital losses may be carried forward indefinitely to offset future realized capital gains. In accordance with federal tax laws applicable to investment companies, specified net 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 - 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). The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 0.70% 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.

The fund may invest in the T. Rowe Price Government Reserve Fund, the T. Rowe Price Treasury Reserve Fund, or the T. Rowe Price Short-Term Fund (collectively, the Price Reserve Funds), open-end management investment companies managed by Price Associates and considered affiliates of the fund. 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. 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, 2016, the fund had no purchases or sales cross trades with other funds or accounts advised by Price Associates.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors of T. Rowe Price Fixed Income Series, Inc. and Shareholders of T. Rowe Price Limited-Term Bond Portfolio**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price Limited-Term Bond Portfolio (one of the portfolios constituting T. Rowe Price Fixed Income Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and brokers, and confirmation of the underlying fund by correspondence with the transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017

### **Tax Information (Unaudited) for the Tax Year Ended 12/31/16**

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 \$1,000 from short-term capital gains.

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

## 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 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

<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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 1994 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2013 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2013 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 1994 [187]	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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.

**Inside Director**

**Name (Year of Birth)**  
**Year Elected\* [Number of**  
**T. Rowe Price Portfolios**  
**Overseen]**

**Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies**  
**During the Past Five Years**

Edward C. Bernard (1956) 2006 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Edward A. Wiese, CFA (1959) 2015 [56]	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, and T. Rowe Price Trust Company; President, Fixed Income Series

\*Inside director serves until retirement, resignation, or election of a successor.

**Officers**

**Name (Year of Birth)**  
**Position Held With Fixed Income Series**

**Principal Occupation(s)**

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.
Steven G. Brooks, CFA (1954) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Jason T. Collins (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
M. Helena Condez (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Levent Demirekler (1974) Vice President	Vice President, T. Rowe Price
G. Richard Dent (1960) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Stephanie A. Gentile, CFA (1956) Vice President	Vice President, T. Rowe Price; formerly, Director, Credit Suisse Securities (to 2014)
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.
Michael J. Grogan, CFA (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Geoffrey M. Hardin (1971) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Charles B. Hill, CFA (1961) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Keir R. Joyce, CFA (1972) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Steven M. Kohlenstein (1987) Assistant Vice President	Assistant Vice President, T. Rowe Price
Paul J. Krug, CPA (1964) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

**Officers (continued)**

<b>Name (Year of Birth)</b> <b>Position Held With Fixed Income Series</b>	<b>Principal Occupation(s)</b>
Marcy M. Lash (1963) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Alan D. Levenson, Ph.D. (1958) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Joseph K. Lynagh, CFA (1958) Executive 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
Andrew C. McCormick (1960) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Cheryl A. Mickel, CFA (1967) Vice President	Director and Vice President, T. Rowe Price Trust Company; Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore
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
Vernon A. Reid, Jr. (1954) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Michael F. Reinartz (1973) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Chen Shao (1980) Vice President	Vice President, T. Rowe Price
Douglas D. Spratley, CFA (1969) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Robert D. Thomas (1971) Vice President	Vice President, T. Rowe Price Group, Inc., and T. Rowe Price International
John D. Wells (1960) Vice President	Vice President, T. Rowe Price and 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.

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100 East Pratt Street  
Baltimore, MD 21202

December 31, 2016

*Annual Report*

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# Mid-Cap Growth Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.

## T. Rowe Price Mid-Cap Growth Portfolio

### Highlights

- Mid-cap growth stocks recorded decent gains in 2016 but lagged their value counterparts by the largest margin in 15 years.
- The Mid-Cap Growth Portfolio modestly trailed its benchmark and peer group average.
- Several of our industrial holdings benefited from expectations for higher defense spending, while the poor performance of several consumer positions detracted.
- The election of Donald Trump and the wave of global populism he represents are coinciding with the end of a monetary era that holds both promise and peril for investors.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price Mid-Cap Growth Portfolio

### Dear Investor

When we wrote to you a year ago, many investors were selling stocks in preparation for a recession in the U.S. (which never came), a collapse in China's financial system (which was averted), and turmoil in emerging markets because of falling oil prices (they rose). What a difference a year makes. As we write today, Wall Street is confidently looking forward to an era of faster growth, lower taxes, less regulation, and higher infrastructure spending. The remarkable change in expectations benefited our portfolio on an absolute basis, helping us record a decent gain in 2016. Yet it has also driven a major sector rotation and taken a sizable toll on the relative performance of growth stocks as an asset class—the largest in 15 years, as we explain below. Our sense is that seismic shifts are taking place in the global economy, but simple assumptions about how they will drive stock performance may again prove misguided.

#### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
Mid-Cap Growth Portfolio	4.67%	6.26%
Mid-Cap Growth Portfolio–II	4.60	6.03
Russell Midcap Growth Index	5.07	7.33
Lipper Variable Annuity Underlying Mid-Cap Growth Funds Average	5.85	6.57

The Mid-Cap Growth Portfolio returned 6.26% in the year ended December 31, 2016, with most of those gains coming in the last six months. The portfolio modestly trailed its benchmark and its peer group average. The portfolio remained favorably ranked relative to its competitors over all time periods. (Based on cumulative total return, Lipper ranked the Mid-Cap Growth Portfolio 33 of 83, 7 of 82, 9 of 82, and 3 of 64 funds in the variable annuity underlying mid-cap growth funds category for the 1-, 3-, 5-, and 10-year periods ended December 31, 2016, respectively. Lipper ranked the Mid-Cap Growth Portfolio–II 39 of 83, 12 of 82, 15 of 82, and 9 of 64 funds in the variable annuity underlying mid-cap growth funds category for the 1-, 3-, 5-, and 10-year periods ended December 31, 2016, respectively. *Past performance cannot guarantee future results.*)

The gloom that pervaded the economic and profits outlook early in 2016 continued to dissipate in the second half of the year, driving solid market gains. Although investor sentiment had begun to lift in the

spring, markets endured another brief sell-off at midyear as investors pondered the implications of the Brexit vote in late June. As they have many times in recent years, however, central banks rode to the market's rescue in July with the promise of increased monetary stimulus in Europe and Japan, helping drive up markets globally. The Federal Reserve also pitched in, signaling that it would further delay its plans to raise interest rates for only the second time in a decade (finally doing so in mid-December).

Better U.S. economic data also reassured investors. Monthly payroll gains, which had nearly petered out early in the year, soon moved back to healthy levels, particularly measured against an unemployment rate below 5%. A tighter labor market and the arrival of long-delayed wage gains appeared to increase consumer confidence, as evidenced by both consumer surveys and solid gains in retail sales. The housing sector also seemed to finally build momentum, with good gains in both housing starts and permits, while existing home sales reached their highest level since early 2007. U.S. manufacturing activity slumped in the summer but began climbing in the fall, and the service sector remained on solid footing. Finally, improved global demand and OPEC production cuts helped oil prices stabilize above \$50 per barrel, seemingly putting an end to the downturn in the energy sector that had begun in 2014.

Prospects for an end to the overall profits recession also boosted investor sentiment. Having declined less than expected in the second quarter, corporate profits for the S&P 500 expanded at an annual rate of roughly 3% in the third quarter. While hardly a stellar performance, it was the first quarterly rise since the start of 2015, and hopes grew for a more substantial profits rebound in 2017.

If investors were growing somewhat more optimistic in the summer and fall, some, at least, became downright celebratory with the election of Donald Trump in November. The market's precise reaction to the election was somewhat more complicated, but in the days after the election, a consensus seemed to emerge on Wall Street that the president-elect would bring about faster economic growth and higher corporate profits through stimulus spending, tax cuts, and deregulation. By mid-December, all of the major benchmarks had broken through to new highs, with the S&P 500 up 26% off its February lows.

The strength of the rally masked a significant dispersion in returns—one that did not favor growth investors. Value stocks significantly outpaced growth shares in the “Trump bump” after the election, building on their lead from earlier in the year. The most important driver of

value performance was the promise of deregulation in the financial sector, along with the prospect of higher interest rates and improved lending margins for banks. A focus on industrial stocks seemingly poised to benefit from higher infrastructure spending also contributed. The shift away from growth stocks was accelerated by a sell-off in some richly valued technology shares, as investors worried that the new president's tough line on trade would threaten supply lines and foreign sales.

### Growth vs. Value

Periods Ended	6	12	3	5
12/31/16	Months	Months	Years	Years
Russell Midcap Growth Index	5.07%	7.33%	19.86%	88.42%
Russell Midcap Value Index	10.22	20.00	31.12	107.37

Cumulative returns.

As shown in the Growth vs. Value table, these factors had a profound impact on the relative performance of mid-cap growth versus mid-cap value shares. Growth stocks lagged their value counterparts by nearly 13 percentage points in 2016, the widest margin of underperformance since the bursting of the technology bubble in 2000–2001. Among significant sectors in the Russell Midcap Growth Index, financials and materials stocks performed best in 2016, while health care and real estate stocks (a new industry classification) performed worst.

## Portfolio Review

While our growth orientation did not position us well for the “Trump trade,” expectations for the incoming administration helped the performance of many of our holdings. Our longtime overweight in the industrials and business services sector provided the biggest overall lift to our results. Shares in satellite earth imagery firm **DigitalGlobe** climbed as the company recorded better-than-expected sales to both governmental and commercial customers. The likelihood of increased military spending under the Trump administration benefited a new position in **Harris**, which provides the military with assured communications products such as tactical radios, defense electronics, space and intelligence systems, and mission support services. Public utility demand for its water infrastructure equipment boosted the shares of **Xylem**, and investors were also pleased by a series of accretive acquisitions on the part of the company. Pump manufacturer and longtime holding **IDEX** also performed well for the

portfolio. (Please refer to the portfolio of investments for a complete list of our holdings and the amount each represents in the portfolio.)

### Sector Diversification

	Percent of Net Assets	
	6/30/16	12/31/16
Industrials and Business Services	20.6%	19.3%
Health Care	18.3	19.0
Information Technology	17.2	18.9
Consumer Discretionary	16.9	16.6
Financials	9.7	11.4
Materials	4.9	5.4
Consumer Staples	2.2	2.2
Energy	2.1	1.7
Telecommunication Services	1.5	1.2
Real Estate	1.1	0.7
Utilities	0.0	0.0
Other and Reserves	5.5	3.6
Total	100.0%	100.0%

Historical weightings reflect current industry/sector classifications.

Our technology holdings did not perform as well as those in the benchmark, but they still contributed nicely to our absolute results. Our top contributor for the year was **Microchip Technology**, a specialist in microcontrollers, which recorded solid earnings gains and successfully integrated its acquisition of rival Atmel. **NXP Semiconductors**, a Netherlands-based leader in mobile phone chips, rose after the announcement of its acquisition by Qualcomm. We mentioned the takeover of another top performer, electronic instruments maker **FEI**, in our last letter. A notable disappointment in the segment was **VeriSign**, which came under pressure after Senator Ted Cruz urged the Department of Justice to review the company's pricing terms for maintaining dot-com registry services. We believe the rollout of new top-level domains (in place of the “com”) should eventually provide a tailwind to the stock.

The upturn in energy and commodity prices in 2016 underpinned much of the market's gains but did not directly affect a large portion of our investment universe. Nevertheless, the materials sector was the third-largest overall contributor to our results in the period, thanks to the strong performance of **Martin Marietta Materials**, which we detailed in our last letter. Energy shares also contributed, due mostly to good returns from **EQT**, a low-cost natural gas producer.

Thankfully, we were able to avoid some of the downdraft in the health care sector, which was the worst-performing segment as the controversy grew over drug pricing. We recorded modest gains from our holdings, largely because of our shift over the last couple of years from emphasizing therapeutic companies to favoring equipment purveyors and service providers. A leading performer was **Intuitive Surgical**, a leader in medical robotics, as the company continued to record impressive earnings and revenue gains. **IDEXX Laboratories**, which provides testing services to veterinarians, was also a top contributor. Most of our smaller group of biotech holdings performed poorly, including **Alnylam Pharmaceuticals**, **Vertex Pharmaceuticals**, and **Alkermes**.

Several disappointments among our financial holdings weighed on our performance early in the year and detracted from our results. Capital markets firm **LPL Financial Holdings** stumbled badly and was eliminated from the portfolio. This was offset somewhat by good results from discount broker **TD Ameritrade Holding**, which continued to enjoy strong organic growth and attractive operating margins. Our real estate positions, particularly developer **Jones Lang LaSalle**, also lagged as interest rates rose late in the year. Fortunately, we had only a small position in the poorly performing sector.

Our consumer discretionary holdings contributed only modestly to overall returns. Much of their lackluster performance came early in the year and was clustered in cruise operators and other travel-related holdings, as we discussed in our midyear letter. A bright spot in the segment was our position in **Harman International**, a longtime provider of audio systems to automakers that is leading the move to “connected car,” Internet-based platforms. The stock soared in November after Samsung announced plans to acquire the company at a significant premium.

We initiated several new holdings in the past six months. Our largest addition was **FleetCor Technologies**, which manages card-based purchases for trucking fleets that allow drivers to handle business expenses (notably fueling) while on the road. We also purchased **Fortive**, an industrial conglomerate. While the name is new to the portfolio, its management team and this collection of businesses are not. Fortive is actually a spinoff from Danaher, a holding in this portfolio for almost two decades before we divested it a few years ago after it had grown far beyond our mid-cap category. We welcome it back! A top-notch management also drew us to **Conagra Brands**. The company has among the lowest margins in the packaged food business, and we are confident that the new executive team can rationalize the business and improve profits substantially. On the sell side, we

eliminated **Whitewave Foods** after the announcement of its acquisition by Danone and sold much of our Harman position after the Samsung bid.

## Investment Strategy and Outlook

The surprise election of Donald Trump looms large over our outlook as we enter 2017. In our view, the election confirmed that we are moving into a populist, but not necessarily conservative, era. As a politician riding a wave of resentment against elites who have benefited most from technological changes and globalization, President Trump is likely to pursue policies that favor his primary constituency—lower-income and middle-class Americans. Many investors may be misconstruing President Trump as a Reagan-style, pro-business Republican; indeed, our new president has already challenged auto companies for offshoring production and drug companies for exorbitant price increases, and he may pose a threat to the consolidation wave that has swept through corporate America in recent years by opposing new mergers and perhaps even by threatening to break up or restrain some of the tech behemoths that have recently led market gains.

The election of Donald Trump, and Brexit before him, may be just the beginning of a global populist wave. Battle lines appear to be hardening in Europe, and gains by populist parties in a number of elections scheduled on the Continent in 2017 could even lead to an eventual breakup of the eurozone. A general turn toward protectionism would pose a serious threat to global markets, and President Trump’s tough talk on China, in particular, bears watching. Many U.S. manufacturing firms have supply chains originating in China that may prove vulnerable to new tariffs or even rhetoric that spins out of control. We will be keeping a close eye on how individual holdings are exposed to heightened threats on this front.

The rise in populism is arriving against the backdrop of what may prove to be another epochal shift, this one in monetary policy. Indeed, we may be approaching the end of an extraordinary monetary experiment in which interest rates have been suppressed, impairing the capital markets allocation function and incentivizing greater risk taking generally. The experiment’s impact is especially evident in Silicon Valley, an innovation hub that has become the epicenter of financial speculation as cheap money cascaded in. We are concerned that 2017 may be the year we see some of the large, privately funded technology companies—the unicorns—falter. Rate hikes may prove to be a governor on market gains generally in 2017, but our bigger worry is that the very timid Federal Reserve will find itself behind the curve.



After years of monetary policy that has been so extreme as to be counterproductive, policymakers may have waited too long to clamp down on percolating inflationary pressures, especially in the labor market, and they will have little in their arsenal for another round of cuts when the next recession comes.

Even if they result in short-term pain, we are optimistic that rising rates and a more normalized monetary environment will bring longer-term benefits for equity investors. Very low rates have allowed private equity investors to use cheap debt to take many public companies private. When combined with booming venture capital financing that has encouraged start-ups to delay initial public offerings, the result has been a de-equitization of the public markets, a phenomenon we have discussed in past letters. Higher rates and a relaxation of onerous regulations pertaining to public companies under the incoming administration might combine to encourage companies to return to the public markets—a positive development for most investors.

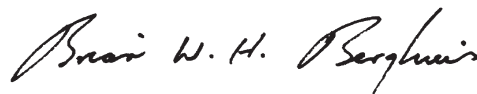
How will these profound changes in the macro environment work their way down to our portfolio? We are inclined to believe that several areas of the portfolio are likely to be long-term beneficiaries of the change in administrations. For example, increased outlays to improve military readiness and capabilities could bode well for defense-related names, including portfolio holdings Harris, **Rockwell Collins**, and DigitalGlobe. After decades of insufficient infrastructure spending in the U.S., it appears the Trump administration could begin an investment period to improve the country's roads, highways, and bridges, which would be a tailwind for continued strong performance from Martin Marietta Materials. Prospects have also brightened considerably for the financials sector. Banks are one area that we have avoided completely in recent years, but with less regulation, higher interest rates, and a stable economic backdrop, these companies could benefit from accelerated loan growth and the potential emergence of another wave of industry consolidation.

The outlook for other sectors appears more mixed. While our industrial investments would benefit from a stronger domestic economy, the specter of a higher U.S. dollar and the impact of changing global trade rules could countervail as headwinds to the sector—challenges that may have been overlooked in the sector's recent runup. Consumer stocks also face a mixed outlook. While they may benefit from rising wages and faster economic growth, uncertainties surrounding changes in tariffs and trade policies pose a threat here as well. Few mid-cap brands or retailers are insulated from overseas markets or supply chains.

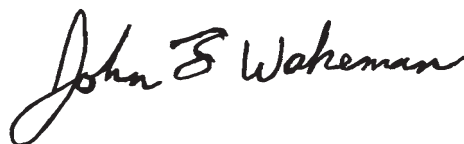
How the health care sector will fare under the Trump administration will remain a key concern for investors. The challenge of rising health care costs, particularly from steep drug price increases, is almost certain to remain a focus under the new administration. We are likely to continue to favor service providers over biotechnology shares until the sector emerges from this cloud of uncertainty or until these companies' stock prices reflect our changing outlook.

With these observations in mind, we are writing just as President Trump is taking office, making it far too early for us to have a definitive playbook for his administration. We will take our time before making significant shifts to the portfolio based on our initial assumptions, and we suspect that much of the market's reaction to the election to date will eventually prove overdone. Rather, as the year progresses, we will learn more about how the world looks under a Trump presidency, and we will make careful shifts accordingly. We look forward to sharing these changes with our shareholders in future letters.

Respectfully submitted,



Brian W.H. Berghuis  
*Chairman of the portfolio's Investment Advisory Committee*



John F. Wakeman  
*Executive vice president of the portfolio*

January 19, 2017

*The committee chairman has day-to-day responsibility for managing the portfolio and works with committee members in developing and executing its investment program.*

## Risks of Stock Investing

As with all stock and bond mutual funds, the portfolio's share price can fall because of weakness in the stock or bond markets, a particular industry, or specific holdings. The financial markets can decline for many reasons, including adverse political or economic developments, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, the investment manager's assessment of companies held in a portfolio may prove incorrect, resulting in losses or poor performance even in rising markets. The stocks of mid-cap companies entail greater risk and are usually more volatile than the shares of larger companies. In addition, growth stocks can be volatile for several reasons. Since they usually reinvest a high proportion of earnings in their own businesses, they may lack the dividends usually associated with value stocks that can cushion their decline in a falling market. Also, since investors buy these stocks because of their expected superior earnings growth, earnings disappointments often result in sharp price declines.

## Glossary

**Lipper indexes:** Fund benchmarks that consist of a small number of the largest mutual funds in a particular category as defined by Lipper Inc.

**Russell Midcap Growth Index:** An unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecast growth values.

**Russell Midcap Value Index:** An unmanaged index that measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecast growth values.

**S&P 500 Index:** An unmanaged index that tracks the stocks of 500 primarily large-cap U.S. companies.

Note: Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell indexes. Russell® is a trademark of Russell Investment Group.

## Portfolio Highlights

### Twenty-Five Largest Holdings

	Percent of Net Assets 12/31/16
Fiserv	2.2%
Textron	2.2
Willis Towers Watson	1.9
Teleflex	1.8
Microchip Technology	1.7
Hologic	1.7
AutoZone	1.5
Norwegian Cruise Line Holdings	1.5
IDEX	1.5
Marriott	1.5
FNF	1.5
Dollar General	1.5
Roper Technologies	1.5
Equifax	1.4
TD Ameritrade Holding	1.3
MEDNAX	1.3
Cooper Companies	1.3
Agilent Technologies	1.3
Intercontinental Exchange	1.2
IHS Markit	1.2
CarMax	1.2
Harris	1.2
Alkermes	1.2
Red Hat	1.2
CBOE Holdings	1.2
Total	37.0%

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.

## Portfolio Highlights

### Contributions to the Change in Net Asset Value

Six Months Ended 12/31/16

#### BEST CONTRIBUTORS

Textron	14¢
TD Ameritrade Holding	13
Harman International	12
CarMax	11
Microchip Technology	10
T-Mobile US	9
Marriott	8
Alkermes	7
Harris	6
Keysight Technologies	6
Total	96¢

#### WORST CONTRIBUTORS

Dollar General	-9¢
TreeHouse Foods	-6
Michaels	-6
Acadia Healthcare	-6
EQT	-5
Henry Schein	-5
VeriSign	-5
Teleflex	-4
Franco-Nevada	-4
FNF	-3
Total	-53¢

12 Months Ended 12/31/16

#### BEST CONTRIBUTORS

Microchip Technology	13¢
T-Mobile US	13
Martin Marietta Materials	10
Fiserv	10
Harman International	9
Teleflex	8
Textron	8
TD Ameritrade Holding	8
Harris*	8
Cooper Companies	8
Total	95¢

#### WORST CONTRIBUTORS

Norwegian Cruise Line Holdings	-13¢
Alkermes	-12
Jones Lang LaSalle	-9
LPL Financial Holdings**	-7
Acadia Healthcare*	-7
TripAdvisor	-6
Vertex Pharmaceuticals	-6
Hanesbrands	-6
Red Hat	-6
L Brands	-5
Total	-77¢

\*Position added.

\*\*Position eliminated.

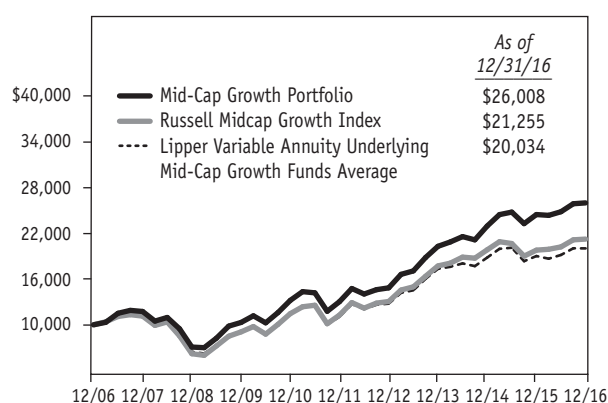
## Performance and Expenses

### T. Rowe Price Mid-Cap Growth 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 may include a broad-based market index and 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.

#### Mid-Cap Growth Portfolio



Note: Performance for the II Class will vary due to its differing fee structure. See the returns table below.

#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
Mid-Cap Growth Portfolio	6.26%	14.80%	10.03%
Mid-Cap Growth Portfolio-II	6.03	14.53	9.76

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. 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). Returns do not reflect taxes that the shareholder may pay on distributions or the redemption of shares. 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.

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. Please note that the fund has two classes of shares: the original share class and II Class. II Class shares are sold through financial intermediaries, which are compensated for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan.

#### 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.

## Fund Expense Example (continued)

### Mid-Cap Growth Portfolio

	Beginning Account Value 7/1/16	Ending Account Value 12/31/16	Expenses Paid During Period* 7/1/16 to 12/31/16
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#### Mid-Cap Growth Portfolio

Actual	\$1,000.00	\$1,046.70	\$4.37
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Hypothetical

(assumes 5% return

before expenses)	1,000.00	1,020.86	4.32
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#### Mid-Cap Growth Portfolio-II

Actual	1,000.00	1,046.00	5.66
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Hypothetical

(assumes 5% return

before expenses)	1,000.00	1,019.61	5.58
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\*Expenses are equal to the class's annualized expense ratio for the 6-month period, 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 (366) to reflect the half-year period. The annualized expense ratio of the Mid-Cap Growth Portfolio was 0.85%, and the Mid-Cap Growth Portfolio-II was 1.10%.

## Financial Highlights

T. Rowe Price Mid-Cap Growth Portfolio

### Mid-Cap Growth Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 25.70	\$ 27.88	\$ 27.70	\$ 22.00	\$ 21.27
Investment activities					
Net investment loss <sup>(1)</sup>	(0.03)	(0.05)	(0.07)	(0.08)	(0.01)
Net realized and unrealized gain / loss	1.66	1.85	3.62	8.10	2.97
Total from investment activities	1.63	1.80	3.55	8.02	2.96
Distributions					
Net realized gain	(1.76)	(3.98)	(3.37)	(2.32)	(2.23)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 25.57</b>	<b>\$ 25.70</b>	<b>\$ 27.88</b>	<b>\$ 27.70</b>	<b>\$ 22.00</b>

### Ratios/Supplemental Data

<b>Total return<sup>(2)</sup></b>	<b>6.26%</b>	<b>6.56%</b>	<b>13.12%</b>	<b>36.69%</b>	<b>13.90%</b>
Ratio of total expenses to average net assets	0.85%	0.85%	0.85%	0.85%	0.85%
Ratio of net investment loss to average net assets	(0.11)%	(0.18)%	(0.25)%	(0.30)%	(0.04)%
Portfolio turnover rate	28.9%	29.4%	26.1%	25.1%	27.5%
Net assets, end of period (in thousands)	\$ 353,074	\$ 350,626	\$ 356,083	\$ 342,210	\$ 271,056

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</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.

## Financial Highlights

T. Rowe Price Mid-Cap Growth Portfolio

### Mid-Cap Growth-II Class

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 24.85	\$ 27.08	\$ 26.99	\$ 21.49	\$ 20.82
Investment activities					
Net investment loss <sup>(1)</sup>	(0.09)	(0.12)	(0.14)	(0.14)	(0.07)
Net realized and unrealized gain / loss	1.61	1.79	3.52	7.91	2.91
Total from investment activities	1.52	1.67	3.38	7.77	2.84
Distributions					
Net realized gain	(1.72)	(3.90)	(3.29)	(2.27)	(2.17)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 24.65</b>	<b>\$ 24.85</b>	<b>\$ 27.08</b>	<b>\$ 26.99</b>	<b>\$ 21.49</b>

### Ratios/Supplemental Data

<b>Total return<sup>(2)</sup></b>	<b>6.03%</b>	<b>6.27%</b>	<b>12.82%</b>	<b>36.40%</b>	<b>13.62%</b>
Ratio of total expenses to average net assets	1.10%	1.10%	1.10%	1.10%	1.10%
Ratio of net investment loss to average net assets	(0.36)%	(0.43)%	(0.50)%	(0.55)%	(0.30)%
Portfolio turnover rate	28.9%	29.4%	26.1%	25.1%	27.5%
Net assets, end of period (in thousands)	\$ 54,691	\$ 52,528	\$ 68,497	\$ 63,572	\$ 48,850

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.

<sup>(2)</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.

## Portfolio of Investments†

T. Rowe Price Mid-Cap Growth Portfolio

December 31, 2016

	Shares	\$ Value
(Cost and value in \$000s)		
<b>COMMON STOCKS 96.0%</b>		
<b>Consumer Discretionary 16.6%</b>		
<b>Automobiles 0.6%</b>		
Ferrari	24,000	1,395
Tesla Motors (1)	6,000	1,282
		2,677
<b>Hotels, Restaurants &amp; Leisure 5.5%</b>		
Aramark	74,000	2,643
Choice Hotels International	16,000	897
Marriott, Class A	74,000	6,118
MGM Resorts International (1)	85,000	2,451
Norwegian Cruise Line Holdings (1)	147,000	6,252
Royal Caribbean Cruises	34,000	2,789
Vail Resorts	7,864	1,269
		22,419
<b>Household Durables 0.5%</b>		
Harman International	18,000	2,001
		2,001
<b>Internet &amp; Direct Marketing Retail 0.3%</b>		
TripAdvisor (1)	25,000	1,159
		1,159
<b>Multiline Retail 1.5%</b>		
Dollar General	82,000	6,074
		6,074
<b>Specialty Retail 6.0%</b>		
AutoZone (1)	8,000	6,318
Burlington Stores (1)	25,000	2,119
CarMax (1)	78,000	5,022
Dick's Sporting Goods	29,000	1,540
L Brands	37,000	2,436
Michaels (1)	122,000	2,495
O'Reilly Automotive (1)	16,000	4,455
		24,385
<b>Textiles, Apparel &amp; Luxury Goods 2.2%</b>		
Carters	23,000	1,987

	Shares	\$ Value
(Cost and value in \$000s)		
Coach	119,000	4,167
Hanesbrands	65,000	1,402
PVH	15,000	1,354
		8,910
Total Consumer Discretionary		67,625
<b>Consumer Staples 2.2%</b>		
<b>Food &amp; Staples Retailing 0.5%</b>		
Sprouts Farmers Market (1)	112,638	2,131
		2,131
<b>Food Products 1.7%</b>		
Blue Buffalo Pet Products (1)	49,000	1,178
Conagra Brands	74,000	2,927
TreeHouse Foods (1)	37,000	2,671
		6,776
Total Consumer Staples		8,907
<b>Energy 1.7%</b>		
<b>Oil, Gas &amp; Consumable Fuels 1.7%</b>		
ARC Resources (CAD)	65,000	1,119
Centennial Resource Development		
Acquisition Date: 12/28/16		
Cost \$269 (1)(2)	18,513	347
Cimarex Energy	7,000	951
Concho Resources (1)	8,000	1,061
EQT	53,000	3,466
Total Energy		6,944
<b>Financials 11.4%</b>		
<b>Capital Markets 6.9%</b>		
Bats Global Markets	24,137	809
CBOE Holdings	66,000	4,877
E*TRADE Financial (1)	57,000	1,975
FactSet Research Systems	10,000	1,634
IHS Markit (1)	143,000	5,064
Intercontinental Exchange	90,000	5,078
MSCI, Class A	33,000	2,600
Oaktree Capital, Partnership	16,000	600



T. Rowe Price Mid-Cap Growth Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
TD Ameritrade Holding	126,000	5,493
		28,130
<b>Insurance 4.5%</b>		
FNF	180,000	6,113
Progressive	127,000	4,508
Willis Towers Watson	64,000	7,826
		18,447
Total Financials		<b>46,577</b>
<b>Health Care 19.0%</b>		
<b>Biotechnology 2.5%</b>		
Alkermes (1)	90,000	5,002
Alnylam Pharmaceuticals (1)	20,000	749
Incyte (1)	18,000	1,805
Neurocrine Biosciences (1)	8,000	310
Tesaro (1)	7,000	941
Vertex Pharmaceuticals (1)	20,000	1,473
		10,280
<b>Health Care Equipment &amp; Supplies 8.0%</b>		
Cooper Companies	30,000	5,248
Dentsply Sirona	82,000	4,734
Hologic (1)	168,000	6,740
IDEXX Laboratories (1)	20,000	2,345
Intuitive Surgical (1)	6,500	4,122
Teleflex	45,000	7,252
West Pharmaceutical Services	26,000	2,206
		32,647
<b>Health Care Providers &amp; Services 3.1%</b>		
Acadia Healthcare (1)	43,000	1,424
Envision Healthcare (1)	45,000	2,848
Henry Schein (1)	20,000	3,034
Mednax (1)	82,000	5,466
		12,772
<b>Health Care Technology 0.5%</b>		
Veeva Systems, Class A (1)	49,000	1,994
		1,994

	Shares	\$ Value
(Cost and value in \$000s)		
<b>Life Sciences Tools &amp; Services 3.5%</b>		
Agilent Technologies	115,000	5,239
Bruker	153,000	3,241
Illumina (1)	16,000	2,049
Mettler-Toledo International (1)	4,000	1,674
Quintiles IMS Holdings (1)	29,000	2,205
		14,408
<b>Pharmaceuticals 1.4%</b>		
Catalent (1)	107,000	2,885
Zoetis	49,000	2,623
		5,508
Total Health Care		<b>77,609</b>
<b>Industrials &amp; Business Services 19.4%</b>		
<b>Aerospace &amp; Defense 5.0%</b>		
DigitalGlobe (1)	91,000	2,607
Harris	49,000	5,021
Rockwell Collins	38,000	3,525
Textron	188,000	9,129
		20,282
<b>Building Products 1.0%</b>		
Allegion	62,000	3,968
		3,968
<b>Commercial Services &amp; Supplies 2.0%</b>		
KAR Auction Services	66,000	2,813
Stericycle (1)	10,484	808
Waste Connections	57,000	4,479
		8,100
<b>Electrical Equipment 1.5%</b>		
Acuity Brands	8,000	1,847
Sensata Technologies Holding (1)	115,000	4,479
		6,326
<b>Industrial Conglomerates 1.5%</b>		
Roper Technologies	33,000	6,042
		6,042

# T. Rowe Price Mid-Cap Growth Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
<b>Machinery 4.2%</b>		
Colfax (1)	37,000	1,329
Fortive	61,000	3,272
IDEX	69,000	6,214
Middleby (1)	15,000	1,932
WABCO Holdings (1)	12,000	1,274
Xylem	61,000	3,021
		17,042
<b>Professional Services 2.8%</b>		
Equifax	47,605	5,628
ManpowerGroup	8,000	711
TransUnion (1)	24,339	753
Verisk Analytics, Class A (1)	53,000	4,302
		11,394
<b>Road &amp; Rail 1.4%</b>		
J.B. Hunt Transport Services	16,000	1,553
Kansas City Southern	41,000	3,479
Old Dominion Freight Line (1)	8,000	686
		5,718
Total Industrials & Business Services		<b>78,872</b>
<b>Information Technology 18.7%</b>		
<b>Communications Equipment 0.1%</b>		
Palo Alto Networks (1)	3,000	375
		375
<b>Electronic Equipment, Instruments &amp; Components 1.4%</b>		
Cognex	20,000	1,273
Keysight Technologies (1)	127,000	4,644
		5,917
<b>Internet Software &amp; Services 1.6%</b>		
Dropbox, Class B		
Acquisition Date: 5/1/12		
Cost \$77 (1)(2)(3)	8,506	82
Match, Class A (1)	44,821	766
VeriSign (1)	57,000	4,336
Zillow (1)	16,000	583
Zillow, Class C (1)	25,000	912
		6,679

	Shares	\$ Value
(Cost and value in \$000s)		
<b>IT Services 8.2%</b>		
Black Knight Financial Services, Class A (1)	2,955	112
CoreLogic (1)	82,000	3,020
CSRA	54,103	1,723
Fidelity National Information	29,000	2,194
Fiserv (1)	86,000	9,140
FleetCor Technologies (1)	26,000	3,679
Gartner (1)	22,000	2,223
Global Payments	66,000	4,581
Sabre	98,000	2,445
Vantiv, Class A (1)	74,000	4,412
		33,529
<b>Semiconductor &amp; Semiconductor Equipment 3.2%</b>		
KLA-Tencor	16,000	1,259
Microchip Technology	106,000	6,800
NXP Semiconductors (1)	29,000	2,842
Xilinx	33,000	1,992
		12,893
<b>Software 4.2%</b>		
Atlassian, Class A (1)	70,000	1,686
Electronic Arts (1)	25,000	1,969
Guidewire Software (1)	18,000	888
Red Hat (1)	70,000	4,879
ServiceNow (1)	16,000	1,190
Splunk (1)	33,000	1,688
SS&C Technologies Holdings	65,000	1,859
Tableau Software (1)	29,000	1,222
Workday (1)	24,000	1,586
		16,967
Total Information Technology		<b>76,360</b>
<b>Materials 5.4%</b>		
<b>Chemicals 3.0%</b>		
Air Products & Chemicals	33,000	4,746
Ashland Global Holdings	26,000	2,842
RPM	66,000	3,553
Valvoline	45,000	967
		12,108

# T. Rowe Price Mid-Cap Growth Portfolio

	Shares	\$ Value
(Cost and value in \$000s)		
<b>Construction Materials 0.8%</b>		
Martin Marietta Materials	15,000	3,323
		3,323
<b>Containers &amp; Packaging 1.1%</b>		
Ball	57,000	4,279
		4,279
<b>Metals &amp; Mining 0.5%</b>		
Franco-Nevada	37,000	2,211
		2,211
Total Materials		<b>21,921</b>
<b>Real Estate 0.4%</b>		
<b>Equity Real Estate Investment Trusts 0.1%</b>		
Equinix, REIT	1,000	357
		357
<b>Real Estate Management &amp; Development 0.3%</b>		
Jones Lang LaSalle	8,000	808
WeWork, Class A, Acquisition Date: 12/9/14 – 5/26/15 Cost \$175 (1)(2)(3)	11,592	376
		1,184
Total Real Estate		<b>1,541</b>
<b>Telecommunication Services 1.2%</b>		
<b>Diversified Telecommunication Services 0.2%</b>		
SBA Communications (1)	7,000	723
		723
<b>Wireless Telecommunication Services 1.0%</b>		
T-Mobile US (1)	74,000	4,256
		4,256
Total Telecommunication Services		<b>4,979</b>
<b>Total Common Stocks (Cost \$260,425)</b>		<b>391,335</b>

	Shares	\$ Value
(Cost and value in \$000s)		
<b>CONVERTIBLE PREFERRED STOCKS 0.5%</b>		
<b>Information Technology 0.2%</b>		
<b>Internet Software &amp; Services 0.2%</b>		
Dropbox, Series A Acquisition Date: 5/1/12 Cost \$96 (1)(2)(3)	10,562	101
Dropbox, Series A-1 Acquisition Date: 5/1/12 Cost \$469 (1)(2)(3)	51,884	498
Total Information Technology		<b>599</b>
<b>Real Estate 0.3%</b>		
<b>Real Estate Management &amp; Development 0.3%</b>		
WeWork, Series D-1 Acquisition Date: 12/9/14 Cost \$362 (1)(2)(3)	21,721	704
WeWork, Series D-2 Acquisition Date: 12/9/14 Cost \$284 (1)(2)(3)	17,066	553
Total Real Estate		<b>1,257</b>
<b>Total Convertible Preferred Stocks (Cost \$1,211)</b>		<b>1,856</b>
<b>SHORT-TERM INVESTMENTS 4.1%</b>		
<b>Money Market Funds 4.1%</b>		
T. Rowe Price Treasury Reserve Fund, 0.44% (4)(5)	16,852,401	16,852
<b>Total Short-Term Investments (Cost \$16,852)</b>		<b>16,852</b>
<b>Total Investments in Securities</b>		
100.6% of Net Assets (Cost \$278,488)	<b>\$</b>	<b>410,043</b>

‡ Shares are denominated in U.S. dollars unless otherwise noted.

(1) Non-income producing

- (2) 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 \$2,661 and represents 0.7% of net assets.

(3) Level 3 in fair value hierarchy. See Note 2.

(4) Seven-day yield

(5) Affiliated Company

CAD Canadian Dollar

REIT A domestic Real Estate Investment Trust whose distributions pass-through with original tax character to the shareholder

**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 which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Purchase and sales cost and investment income reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Investment Income</b>	<b>Value 12/31/16</b>	<b>Value 12/31/15</b>
T. Rowe Price Treasury Reserve Fund +	□	□	\$ 55	\$ 16,852	\$ 16,947
T. Rowe Price Short-Term Fund #	□	□	— <sup>^</sup>	—	68
Totals			<u>\$ 55</u>	<u>\$ 16,852</u>	<u>\$ 17,015</u>

+ At December 31, 2015, the underlying fund's name was T. Rowe Price Government Reserve Investment Fund.

□ Purchase and sale information not shown for cash management funds.

# At December 31, 2015, the underlying fund's name was T. Rowe Price Short-Term Reserve Fund.

<sup>^</sup> Excludes earnings on securities lending collateral, which are subject to rebates and fees as described in Note 3.

Amounts reflected on the accompanying financial statements include the following amounts related to affiliated companies:

Investment in securities, at cost	<u>\$ 16,852</u>
Dividend income	55
Interest income	<u>—</u>
Investment income	<u>\$ 55</u>
Realized gain (loss) on securities	<u>\$ —</u>
Capital gain distributions from mutual funds	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price Mid-Cap Growth Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$278,488)	\$ 410,043
Receivable for investment securities sold	308
Dividends receivable	209
Receivable for shares sold	13
Foreign currency (cost \$2)	1
Other assets	1
Total assets	<u>410,575</u>

### Liabilities

Payable for investment securities purchased	2,262
Investment management and administrative fees payable	361
Payable for shares redeemed	187
Total liabilities	<u>2,810</u>

### NET ASSETS

**\$ 407,765**

### Net Assets Consist of:

Accumulated undistributed net realized gain	\$ 8,482
Net unrealized gain	131,555
Paid-in capital applicable to 16,024,584 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized	<u>267,728</u>

### NET ASSETS

**\$ 407,765**

### NET ASSET VALUE PER SHARE

#### Mid-Cap Growth Class

(\$353,074,005 / 13,805,495 shares outstanding)

**\$ 25.57**

#### Mid-Cap Growth - II Class

(\$54,691,417 / 2,219,089 shares outstanding)

**\$ 24.65**

The accompanying notes are an integral part of these financial statements.

## Statement of Operations

T. Rowe Price Mid-Cap Growth Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Income	
Dividend	\$ 2,932
Securities lending	6
Other	4
Total income	2,942
Expenses	
Investment management and administrative expense	3,373
Rule 12b-1 fees - Mid-Cap Growth-II Class	132
Total expenses	3,505
Net investment loss	(563)
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain on securities	34,480
Change in net unrealized gain / loss on securities	(9,934)
Net realized and unrealized gain / loss	24,546
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 23,983</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Net Assets

T. Rowe Price Mid-Cap Growth Portfolio

(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment loss	\$ (563)	\$ (893)
Net realized gain	34,480	54,733
Change in net unrealized gain / loss	(9,934)	(26,003)
Increase in net assets from operations	23,983	27,837
Distributions to shareholders		
Net realized gain		
Mid-Cap Growth Class	(22,792)	(47,799)
Mid-Cap Growth-II Class	(3,575)	(7,099)
Decrease in net assets from distributions	(26,367)	(54,898)
Capital share transactions*		
Shares sold		
Mid-Cap Growth Class	27,417	28,461
Mid-Cap Growth-II Class	5,781	14,709
Distributions reinvested		
Mid-Cap Growth Class	22,792	47,799
Mid-Cap Growth-II Class	3,575	7,098
Shares redeemed		
Mid-Cap Growth Class	(45,902)	(57,558)
Mid-Cap Growth-II Class	(6,668)	(34,874)
Increase in net assets from capital share transactions	6,995	5,635
<b>Net Assets</b>		
Increase (decrease) during period	4,611	(21,426)
Beginning of period	403,154	424,580
<b>End of period</b>	<b>\$ 407,765</b>	<b>\$ 403,154</b>
Undistributed net investment income	—	—
<b>*Share information</b>		
Shares sold		
Mid-Cap Growth Class	1,060	971
Mid-Cap Growth-II Class	232	512
Distributions reinvested		
Mid-Cap Growth Class	880	1,874
Mid-Cap Growth-II Class	143	288
Shares redeemed		
Mid-Cap Growth Class	(1,778)	(1,974)
Mid-Cap Growth-II Class	(270)	(1,216)
Increase in shares outstanding	267	455

The accompanying notes are an integral part of these financial statements.



## Notes to Financial Statements

T. Rowe Price Mid-Cap Growth Portfolio

December 31, 2016

T. Rowe Price Equity Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The Mid-Cap Growth Portfolio (the fund) is a diversified, open-end management investment company established by the corporation. Shares of the fund currently are offered only through certain insurance companies as an investment medium for both variable annuity contracts and variable life insurance policies. The fund seeks to provide long-term capital appreciation by investing in mid-cap stocks with potential for above-average earnings growth. The fund has two classes of shares: the Mid-Cap Growth Portfolio (Mid-Cap Growth Class) and the Mid-Cap Growth–II (T. Rowe Price Mid-Cap Growth–II Class). Mid-Cap Growth–II Class shares are sold through financial intermediaries, which it compensates for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan. Each class has exclusive voting rights on matters related solely to that class; separate voting rights on matters that relate to both classes; and, in all other respects, the same rights and obligations as the other class.

### 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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. Dividends received from mutual fund investments are reflected as dividend income; capital gain distributions are reflected as realized gain/loss. Earnings on investments recognized as partnerships for federal income tax purposes reflect the tax character of such earnings. Dividend income and capital gain distributions are recorded on the ex-dividend date. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Distributions from REITs are initially recorded as dividend income and, to the extent such represent a return of capital or capital gain for tax purposes, are reclassified when such information becomes available. Income distributions are declared and paid by each class annually. Distributions to shareholders are recorded on the ex-dividend date. Capital gain distributions are generally 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 date of the transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is reflected as a component of security gains and losses.

**Class Accounting** Investment income, investment management and administrative expense, and realized and unrealized gains and losses are allocated to the classes based upon the relative daily net assets of each class. Mid-Cap Growth Portfolio–II Class pays Rule 12b-1 fees, in an amount not exceeding 0.25% of the class's average daily net assets.

**Rebates** Subject to best execution, the fund may direct certain security trades to brokers who have agreed to rebate a portion of the related brokerage commission to the fund in cash. Commission rebates are reflected as realized gain on securities in the accompanying financial statements and totaled \$5,000 for the year ended December 31, 2016.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is required for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.

## NOTE 2 - VALUATION

The fund's financial instruments are valued and each class's 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, in its judgment, materially 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. 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, 2016:

(\$000s)	Level 1	Level 2	Level 3	Total Value
	Quoted Prices	Significant Observable Inputs	Significant Unobservable Inputs	
Investments in Securities, except:	\$ 16,852	\$ —	\$ —	\$ 16,852
Common Stocks	389,411	1,466	458	391,335
Convertible Preferred Stocks	—	—	1,856	1,856
Total	\$ 406,263	\$ 1,466	\$ 2,314	\$ 410,043

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2016.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2016. 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, 2016, totaled (\$10,000) for the year ended December 31, 2016.

(\$000s)	Beginning Balance 1/1/16	Gain (Loss) During Period	Ending Balance 12/31/16
Investments in Securities			
Common Stocks	\$ 461	\$ (3)	\$ 458
Convertible Preferred Stocks	1,863	(7)	1,856
Total Level 3	\$ 2,324	\$ (10)	\$ 2,314

### NOTE 3 - 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.

**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 brokers 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, valued at 102% to 105% of the value of the securities on loan. 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 by the lending agent(s) 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, 2016, there were no securities on loan.

**Other** Purchases and sales of portfolio securities other than short-term securities aggregated \$109,687,000 and \$124,402,000, respectively, for the year ended December 31, 2016.

### NOTE 4 - 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.

## T. Rowe Price Mid-Cap Growth Portfolio

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.

Reclassifications between income and gain relate primarily to the offset of the current net operating loss against realized gains. For the year ended December 31, 2016, the following reclassifications were recorded to reflect tax character (there was no impact on results of operations or net assets):

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(\$000s)		
Undistributed net investment income	\$	563
Undistributed net realized gain		(563)

Distributions during the years ended December 31, 2016 and December 31, 2015, were characterized for tax purposes as follows:

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(\$000s)	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Ordinary income	\$ 518	\$ 2,482
Long-term capital gain	25,849	52,416
Total distributions	<u>\$ 26,367</u>	<u>\$ 54,898</u>

At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

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(\$000s)	
Cost of investments	<u>\$ 280,759</u>
Unrealized appreciation	\$ 136,539
Unrealized depreciation	<u>(7,255)</u>
Net unrealized appreciation (depreciation)	129,284
Undistributed ordinary income	1,802
Undistributed long-term capital gain	8,951
Paid-in capital	<u>267,728</u>
Net assets	<u>\$ 407,765</u>

The difference between book-basis and tax-basis net unrealized appreciation (depreciation) is attributable to the deferral of losses from wash sales and the realization of gains/losses on passive foreign investment companies, for tax purposes.

In accordance with federal tax laws applicable to investment companies, specified net 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 5 - 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). The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 0.85% 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.

The fund may invest in the T. Rowe Price Government Reserve Fund, the T. Rowe Price Treasury Reserve Fund, or the T. Rowe Price Short-Term Fund (collectively, the Price Reserve Funds), open-end management investment companies managed by Price Associates and considered affiliates of the fund. 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. 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, 2016, 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, 2016.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors of T. Rowe Price Equity Series, Inc. and Shareholders of T. Rowe Price Mid-Cap Growth Portfolio**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price Mid-Cap Growth Portfolio (one of the portfolios constituting T. Rowe Price Equity Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and brokers, and confirmation of the underlying fund by correspondence with the transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017

### **Tax Information (Unaudited) for the Tax Year Ended 12/31/16**

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:

- \$518,000 from short-term capital gains,
- \$25,848,000 from long-term capital gains, subject to a long-term capital gains tax rate of not greater than 20%.

For taxable non-corporate shareholders, \$1,971,000 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, \$1,971,000 of the fund's income qualifies for the dividends-received deduction.

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.



## 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 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

<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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 2001 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 2001 [187]	Owner/President, Centaur Capital Partners, Inc., a real estate investment company (1991 to present); Co-founder, 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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.

**Inside Directors**

**Name (Year of Birth)**  
**Year Elected\* [Number of**  
**T. Rowe Price Portfolios**  
**Overseen]**

**Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies**  
**During the Past Five Years**

Edward C. Bernard (1956) 2006 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Brian C. Rogers, CFA, CIC (1955) 2013 [131]	Chief Investment Officer, Director, and Vice President, T. Rowe Price; Chairman of the Board, Chief Investment Officer, Director, and Vice President, T. Rowe Price Group, Inc.; Vice President, T. Rowe Price Trust Company; Director, United Technologies (January 2016 to present); President, Equity Series

\*Each inside director serves until retirement, resignation, or election of a successor.

**Officers**

**Name (Year of Birth)**  
**Position Held With Equity Series**

**Principal Occupation(s)**

Ziad Bakri, M.D., CFA (1980) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Brian W.H. Berghuis, CFA (1958) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
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.
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.
Ian D. Kelson (1956) Vice President	Director and Vice President, T. Rowe Price International; Vice President, 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
John D. Linehan, CFA (1965) Executive 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
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore
Larry J. Puglia, CFA, CPA (1960) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
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)

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.

**Officers (continued)**

<b>Name (Year of Birth)</b> <b>Position Held With Equity Series</b>	<b>Principal Occupation(s)</b>
Shannon H. Rauser (1987) Assistant Secretary	Employee, T. Rowe Price
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Charles M. Shriver, CFA (1967) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, and T. Rowe Price Trust Company
Ken D. Uematsu, CFA (1969) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Trust Company
John F. Wakeman (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Justin P. White (1981) Executive Vice President	Vice President, T. Rowe Price and 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.

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100 East Pratt Street  
Baltimore, MD 21202

December 31, 2016

*Annual Report*

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# Personal Strategy Balanced Portfolio



This report is authorized for distribution only to those who have received a copy of the portfolio's prospectus.

T. Rowe Price Investment Services, Inc., Distributor.



## T. Rowe Price Personal Strategy Balanced Portfolio

### Highlights

- U.S. stocks posted solid returns in 2016 as oil prices rebounded from depressed levels, the Fed kept interest rates low, and a post-presidential election rally pushed the major U.S. indexes to record levels at year-end. International stock markets rose modestly while emerging markets stocks rallied as energy and commodity prices strengthened and global central banks maintained accommodative policies.
- U.S. investment-grade bonds advanced as strong gains in the first half of 2016 offset subsequent declines as Treasuries sold off in the fourth quarter in anticipation of a Fed rate hike in December and more rate increases in 2017. High yield bonds rallied amid strong demand for riskier assets in a low interest rate environment. Non-U.S. dollar-denominated bonds rose slightly as first-half gains driven by dollar weakness and falling yields on sovereign debt in developed markets were largely offset by a reversal of these trends in the year's second half. Emerging markets bonds performed strongly.
- The Personal Strategy Balanced Portfolio returned 6.45% for the 12 months ended December 31, 2016, underperforming its combined index benchmark but outperforming its Lipper peer group average.
- Our global growth expectations remain modest as prospects for more fiscal spending are tempered by a possible drop in global trade arising from protectionist measures under the new president and a Republican-controlled Congress. We believe that the Personal Strategy Balanced Portfolio's broadly diversified holdings offer value in an environment of economic and policy uncertainty.

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The views and opinions in this report were current as of December 31, 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the fund's future investment intent. The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respects.

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## Manager's Letter

T. Rowe Price Personal Strategy Balanced Portfolio

### Dear Investor

The year 2016 marked a turbulent period for investors as global financial markets faced two political upsets: the UK's vote to leave the European Union in June and Donald Trump's win in the U.S. presidential election in November. Despite a brief bout of volatility accompanying both events, most asset classes advanced for the year as investors came to grips with the longer-term implications of Brexit and a Trump presidency. U.S. stocks rallied as the economy gradually picked up and Trump's win raised hopes for policies spurring faster growth and inflation. Stocks in international developed and emerging markets also advanced as global central banks maintained or expanded aggressive stimulus measures and energy and commodity prices strengthened.

In fixed income, U.S. investment-grade bonds rose slightly as losses in the year's second half spurred by a postelection sell-off in Treasuries eroded the first half's strong gains. High yield bonds surged as energy-related risks receded and investors sought higher-yielding assets in an environment of low or negative government debt yields in developed markets. Within international markets, non-U.S. dollar-denominated debt advanced as first-half gains driven by dollar weakness and falling yields on developed world sovereign debt were largely offset by a reversal of these trends in the year's second half. Emerging markets bonds rallied as relatively higher interest rates in many developed countries attracted yield-seeking investors.

#### Performance Comparison

Periods Ended 12/31/16	Total Return	
	6 Months	12 Months
Personal Strategy Balanced Portfolio	3.88%	6.45%
Morningstar Moderate Target Risk Index	3.79	8.57
Combined Index Portfolio*	3.94	7.18
Lipper Variable Annuity Underlying Mixed-Asset Target Allocation Moderate Funds Average	3.24	6.19

\*For a definition of the benchmark, please see the glossary.

Against this volatile backdrop, the Personal Strategy Balanced Portfolio returned 3.88% and 6.45% for the six and 12 months ended December 31, 2016, respectively. The portfolio performed in line with the 3.94% return of its combined index benchmark for the

six-month period and underperformed the benchmark's 7.18% return for the full year. It outperformed its Lipper peer group average over both periods.

Security selection in the portfolio's underlying investments drove underperformance against the combined index benchmark. Underperformance in the portfolio's underlying U.S. large-cap growth and value strategies detracted the most from relative returns and was only partly offset by positive performance among international developed and emerging markets stocks. Among the portfolio's fixed income holdings, emerging markets and non-U.S. dollar-denominated debt were solid contributors, while investment-grade and high yield bonds trailed their benchmarks.

Inclusion of diversifying sectors—such as high yield bonds and real assets equities, which are not part of the portfolio's broad fixed income and equity benchmarks—helped relative performance. These diversifying sectors received a boost from rising oil prices, which ended the year above the \$50 per barrel threshold after the world's leading oil producers unexpectedly agreed to cut output starting in 2017. Our exposure to high yield bonds lifted relative returns as strong demand from yield-seeking investors and rising oil prices improved the outlook for the natural resources companies that dominate the high yield market. An allocation to real assets further benefited relative performance as real assets equities advanced, propelled by the rebound in oil and other commodities. Finally, our exposure to emerging markets bonds helped as relatively higher interest rates in many developing countries supported demand and drove strong performance in dollar-denominated emerging markets debt. Tactical decisions to overweight and underweight asset classes did not materially impact relative returns.

#### Market Environment

U.S. stocks advanced in 2016, helped by a postelection rally that lifted the major market indexes to record levels in December. Small- and mid-cap stocks outperformed large-caps as investors deemed that smaller companies with greater exposure to the domestic economy would benefit more from the potentially stimulative impact resulting from the relaxed regulations, tax cuts, and fiscal spending advocated by the new president. The U.S. economy grew at a 3.5% annualized pace in the third quarter, its strongest quarterly expansion in two years, though weaker growth in prior quarters was more indicative of economic activity since the recession ended in mid-2009. The Federal Reserve lifted short-term interest rates for the second time in a decade on

December 14, 2016, and signaled three rate hikes in 2017, an unexpectedly hawkish view indicating that employment and inflation were approaching the Fed's targeted levels.

### Major Index Returns

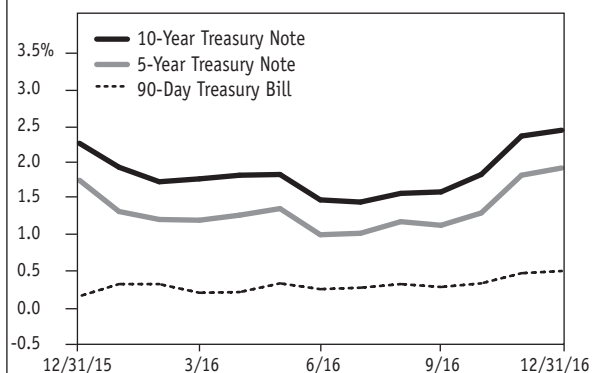
Periods Ended 12/31/16	6 Months	12 Months
S&P 500 Index	7.82%	11.96%
MSCI All Country World Index ex USA	5.72	5.01
MSCI Emerging Markets Index	4.70	11.60
Bloomberg Barclays U.S. Aggregate Bond Index	-2.53	2.65
Citigroup 3-Month Treasury Bill Index	0.15	0.27
Credit Suisse High Yield Index	8.29	18.37

Note: Unlike stocks and bonds, U.S. Treasuries are guaranteed as to the timely payment of principal and interest.

Stocks in developed European markets edged higher, aided by accommodative monetary policy and subdued economic growth. The eurozone economy expanded 0.3% in the third quarter of 2016 from the previous quarter, allaying concerns that Brexit had harmed the euro area's growth. Still, the meager pace of growth led the European Central Bank to extend its bond-buying program until the end of 2017 while reducing the size of its monthly purchases. Japanese stocks advanced as a moderate recovery took hold, and the country's economy grew for three straight quarters. Japan continued to struggle with chronic deflation, however, and in September its central bank introduced a 0% target rate on 10-year government bonds in an effort to control the yield curve, the latest of many unprecedented actions intended to boost profitability for banks and generate sustained growth and inflation.

Emerging markets stocks rallied as China-focused worries subsided, oil prices recovered from decade lows, and accommodative monetary policies in developed countries supported risk sentiment. However, stocks and currencies in the developing world tumbled after the U.S. election on worries that Trump's economic and trade policies would jeopardize existing free trade agreements and lead to a faster-than-expected pace of interest rate increases in the U.S., making emerging markets assets relatively less attractive as a result.

### Interest Rate Levels



Source: Federal Reserve Board.

U.S. investment-grade bonds rose slightly in 2016 as losses in the year's second half reduced the first half's strong gains. Intermediate- and long-term yields dipped to four-year lows around midyear as the Fed refrained from raising interest rates and investors bid up safe-haven assets, particularly after Brexit. However, yields reversed course in the year's second half as investors began to price in the effects of a Fed rate hike by year-end. Treasury sales accelerated after the election as the potential for larger deficits and rising inflation under the Trump administration made U.S. government bonds less attractive. In December, the Fed raised short-term rates as expected but also forecast three rate hikes in 2017, which triggered more selling in bonds. The yield on the benchmark 10-year Treasury note ended the year at 2.45%, 85 basis points higher than where it started in October. (A basis point is 0.01 percentage point.)

High yield bonds rallied as oil prices stayed near \$50 per barrel in the year's second half, which helped allay risks associated with the energy sector issuers that make up a large proportion of the market. Investor demand for high yield bonds also remained strong in an environment of low or negative yields on government bonds in most developed markets.

Non-U.S. dollar bonds in developed markets rose slightly as first-half gains driven by dollar weakness and falling sovereign debt yields were largely offset by a reversal of both trends in the year's second half. Both the euro and yen appreciated against the dollar in the year's first half. But the Fed's hawkish policy forecast for 2017, coupled with ongoing accommodative policies of

other central banks, pushed the dollar to a 14-year high against a basket of currencies of major U.S. trading partners at year-end. Worries that global central banks may have reached the limits of their quantitative easing programs—which aim to spur growth by driving government bond yields to low and often negative yields—further contributed to a sell-off in developed markets sovereign bonds later in the year.

Dollar-denominated emerging markets bonds rallied as relatively higher interest rates in many developing countries attracted yield-seeking investors.

## Portfolio Review and Positioning

The investment objective of the Personal Strategy Balanced Portfolio is to generate the highest total return consistent with an equal emphasis on both income and capital appreciation. The portfolio's typical asset mix is 60% stocks and 40% bonds, cash, and money market securities, although allocations can vary by as much as 10 percentage points above or below these levels. At the end of our reporting period, the portfolio's target allocation to equities and fixed income was 60% and 40%, respectively, which is consistent with its long-term neutral asset class allocation.

### Asset Allocation

The Personal Strategy Balanced Portfolio has the ability to overweight or underweight allocations to asset classes or sub-asset classes based on the views of the T. Rowe Price Asset Allocation Committee. The committee meets monthly to evaluate economic, market, and earnings trends, among other factors, and to look for opportunities over a 6- to 18-month investment horizon. Relative value is an important consideration in evaluating which segments to overweight or underweight. We typically seek to overweight segments of the market that we believe are attractively valued and underweight areas that are more richly valued.

Several years of strong performance have left valuations at or above fair value in many asset classes, reducing the number of compelling investment opportunities as a result. While we are positioned near neutral across several market segments, we are still finding opportunities in select areas where valuations appear more attractive, and have reduced allocations where we see potential risks.

We maintained a neutral position in stocks relative to bonds throughout 2016. Equity markets are trending near record highs amid optimism about the potential for pro-growth policies under the Trump administration.

The surge in equities coincides with the end of an earnings recession that lasted for five straight quarters. At current levels, valuations are modestly above historical averages with declining profit margins and tepid but improving earnings growth. However, low but durable economic growth should support most sectors. In fixed income, we expect modest returns as the current low-yield environment provides a weak foundation for bonds and rising U.S. rates represent a headwind for most sectors. Global monetary policies are expected to stay accommodative for some time, which should temper downside risks to bonds.

### Stocks

Security selection in U.S. large-cap growth and value stocks detracted significantly from relative performance. Health care companies were large detractors as the sector faced myriad concerns, including political scrutiny of corporate tax inversions, worries about legislative action to control drug prices, and profit-taking following strong performance in 2015. Notable detractors included **Allergan**, **Alexion Pharmaceuticals**, and **Valeant Pharmaceuticals International**. On the other hand, U.S. financial stocks (led by **JPMorgan Chase**, **Morgan Stanley**, and **State Street**) ranked among the top contributors as investors anticipated that the new administration would usher in inflationary policies, corporate tax cuts, and less regulatory oversight—all of which would boost profitability for banks. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

### Portfolio Overview

	Percent of Net Assets 12/31/16
Reserves	3.3%
Bonds	36.7%
Stocks	60.0%
Largest Stock Holdings	
Amazon.com	1.5%
Alphabet	1.3
Microsoft	1.2
JPMorgan Chase	1.0
Facebook	0.8
Priceline	0.8
Morgan Stanley	0.7
Philip Morris International	0.6
Tyson Foods	0.6
American Airlines	0.6

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.

In November, we reduced our overweight to international stocks relative to U.S. stocks to neutral after gradually paring our international stock exposure over the period. We believe that prospects for stronger earnings growth have diminished with lower expectations for global growth and trade. Uncertainties created by Brexit, along with upcoming elections and referendums across Europe, will likely weigh on corporate spending. We also sought to lower the risk profile of our portfolios by reducing our exposure to emerging markets equities, thereby lessening risks related to foreign currencies and a potential shift toward more protectionist U.S. trade policies.

We are underweight real assets equities given our cautious outlook for energy and commodity prices. We increased our underweight after oil prices rallied in September when the Organization of Petroleum Exporting Countries (OPEC) unexpectedly announced a deal to reduce output. However, OPEC's ability to uphold the accord is unclear, and rising oil prices will likely encourage U.S. producers to increase production, thereby contributing to global oversupply. Additionally, industrial metals demand will likely stay subdued as China rebalances its economy to reduce its dependency on industrial production. We believe that fundamentals for real estate investment trusts in developed markets are positive, though they are sensitive to rising interest rates.

We favor U.S. large-cap stocks over small-caps, but reduced our small-cap underweight over the year as relative valuations for small-cap stocks approached their historical averages. We are overweight U.S. growth over value stocks due to more attractive valuations for growth stocks and our expectations for a low-growth environment, which tends to favor growth over value stocks.

## **Bonds**

We initiated an overweight to high yield relative to U.S. investment-grade bonds in the first quarter as credit spreads widened but subsequently trimmed our high yield allocation in the spring after a rally in the sector that was spurred by a rebound in commodity prices. We currently have a modest overweight based on our view that high yield debt offers an attractive alternative to investment-grade bonds given their yield advantage and better downside protection relative to stocks.

Our current positioning reflects an overweight to emerging markets bonds. Emerging markets bonds offer attractive yields relative to other fixed income investments. While concerns have surfaced about the impact of rising protectionism, emerging markets are generally in stronger financial shape than they were

a few years ago, and increased fiscal spending in developed markets could benefit demand for emerging markets exports. However, we would note that considerable disparity exists among developing countries in terms of their fiscal positions, political stability, and reform progress.

Over the summer, we initiated an underweight to non-dollar bonds relative to U.S. investment-grade bonds to reduce our exposure to low-yielding bond markets. Aggressive monetary easing by central banks in Europe and Japan have resulted in negative yields on many government bonds in their respective markets, making their risk/reward trade-off less attractive. We further reduced our nondollar bonds exposure after the U.S. election, given our view that the dollar could strengthen against other currencies as prospects for increased fiscal spending and tax cuts place upward pressure on interest rates.

## **Outlook**

Our global growth expectations remain modest over the next several quarters. We believe that growth prospects due to increased fiscal spending are tempered by a possible drop in global trade arising from protectionist measures. While the U.S. economy could see a boost from fiscal stimulus, lower taxes, and deregulation espoused by the new president and a Republican-controlled Congress, the timing and scope of each of these measures remains unclear. Other risks for the global economy include monetary policy missteps and the sustainability of energy prices, which rebounded strongly this year but remain vulnerable to a longer-term imbalance between supply and demand.

Our growth outlook varies across individual countries. Japan's economic activity has been tepid and uneven despite several years of fiscal and monetary stimulus under "Abenomics," the pro-growth agenda of Prime Minister Shinzo Abe, and the country continues to struggle with weak consumption and low inflation. In Europe, modestly improving growth in this year's first half has been overshadowed by Brexit, which is expected to weigh on the UK and euro economies for the next few years. We believe that Europe faces elevated near-term risks related to upcoming elections in France and Germany and Brexit-induced uncertainty as companies reexamine their investment and hiring plans.

Emerging markets are showing signs of stabilization, as Brazil and Russia are expected to exit recession in 2017. China's economy has steadied thanks to stepped-up stimulus, though the country's continued reliance on government spending to spur growth and rising

indebtedness has raised concerns about maintaining growth at current levels. While we expect overall growth in emerging markets will improve, we believe that potential for trade tensions and a strong dollar resulting from U.S. policy changes represent near-term risks to the asset class.

Against the current backdrop characterized by uneven global growth, divergent central bank policies, and elevated policy uncertainty in the U.S., we anticipate heightened financial markets volatility in the coming months. In this uncertain environment, we believe that the Personal Strategy Balanced Portfolio's broad diversification combined with T. Rowe Price's longstanding strengths in fundamental research will help us continue to deliver solid returns for our shareholders over time.

Thank you for investing with T. Rowe Price.

Respectfully submitted,

A handwritten signature in cursive script that reads "Charles Shriver".

Charles Shriver  
*Portfolio manager and chairman of the portfolio's Investment  
Advisory Committee*

January 17, 2017

*The committee chairman has day-to-day responsibility  
for managing the portfolio and works with committee  
members in developing and executing its investment program.*



## Risks of Investing

As with all stock and bond mutual funds, each fund's share price can fall because of weakness in the stock or bond markets, a particular industry, or specific holdings. Stock markets can decline for many reasons, including adverse political or economic developments, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, the investment manager's assessment of companies held in a fund may prove incorrect, resulting in losses or poor performance even in rising markets.

Bonds are subject to interest rate risk, the decline in bond prices that usually accompanies a rise in interest rates, and credit risk, the chance that any fund holding could have its credit rating downgraded or that a bond issuer will default (fail to make timely payments of interest or principal), potentially reducing the fund's income level and share price. High yield corporate bonds could have greater price declines than funds that invest primarily in high-quality bonds. Companies issuing high yield bonds are not as strong financially as those with higher credit ratings, so the bonds are usually considered speculative investments.

Funds that invest overseas may carry more risk than funds that invest strictly in U.S. assets. 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.

## Glossary

**Bloomberg Barclays U.S. Aggregate Bond Index:** An unmanaged index that tracks investment-grade bonds, including corporate, government, and mortgage-backed securities.

**Citigroup 3-Month Treasury Bill Index:** An unmanaged index that tracks short-term U.S. government debt instruments.

## Glossary (continued)

**Combined index benchmark:** Unmanaged portfolio composed of the following underlying indexes as of June 30, 2016:

- 60% stocks (42% Russell 3000 Index, 18% MSCI All Country World Index ex USA), 30% bonds (Bloomberg Barclays U.S. Aggregate Bond Index), and 10% money market securities (Citigroup 3-Month Treasury Bill Index).

**Credit Suisse High Yield Index:** Tracks the performance of domestic noninvestment-grade corporate bonds.

**Lipper averages:** The averages of available mutual fund performance returns for specified time periods in categories defined by Lipper Inc.

**Morningstar Moderate Target Risk Index:** Represents a portfolio of global equities (fixed at 60%), bonds, and other asset classes.

**MSCI All Country World Index ex USA:** An index that measures equity market performance of developed and emerging countries, excluding the U.S.

**MSCI Emerging Markets Index:** A capitalization-weighted index of stocks from emerging markets countries that only includes securities that may be traded by foreign investors.

**Real estate investment trusts (REITs):** Publicly traded companies that own, develop, and operate apartment complexes, hotels, office buildings, and other commercial properties.

**Russell 3000 Index:** An index that tracks the performance of the 3,000 largest U.S. companies, representing approximately 98% of the investable U.S. equity market.

**S&P 500 Index:** An index that tracks the stocks of 500 primarily large-cap U.S. companies.

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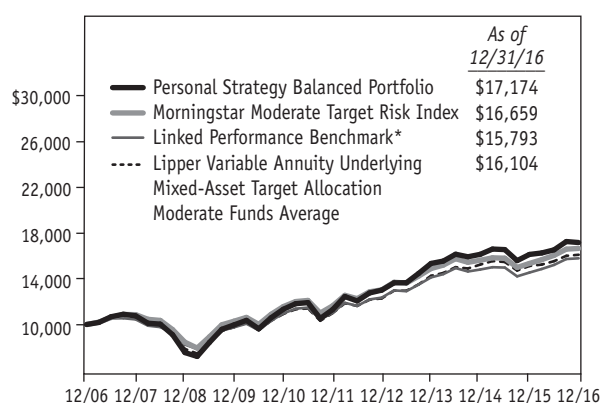
## Performance and Expenses

### T. Rowe Price Personal Strategy Balanced 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 may include a broad-based market index and 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.

#### Personal Strategy Balanced Portfolio



\*The linked performance benchmark reflects the performance of the Merrill Lynch-Wilshire Capital Market Index to 6/30/09 and the performance of the Morningstar Moderate Target Risk Index from 7/1/09 forward.

#### Average Annual Compound Total Return

Periods Ended 12/31/16	1 Year	5 Years	10 Years
Personal Strategy Balanced Portfolio	6.45%	8.73%	5.56%

*Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. 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.

#### Personal Strategy Balanced Portfolio

	Beginning Account Value 7/1/16	Ending Account Value 12/31/16	Expenses Paid During Period* 7/1/16 to 12/31/16
Actual	\$1,000.00	\$1,038.80	\$3.95
Hypothetical (assumes 5% return before expenses)	1,000.00	1,021.27	3.91

\*Expenses are equal to the portfolio's annualized expense ratio for the 6-month period (0.77%), 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 (366) to reflect the half-year period.



## Financial Highlights

T. Rowe Price Personal Strategy Balanced Portfolio

For a share outstanding throughout each period

	Year Ended 12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 18.73	\$ 20.56	\$ 21.33	\$ 19.55	\$ 17.80
Investment activities					
Net investment income <sup>(1)</sup>	0.31 <sup>(2)</sup>	0.34 <sup>(2)</sup>	0.33 <sup>(2)</sup>	0.31 <sup>(2)</sup>	0.35 <sup>(2)</sup>
Net realized and unrealized gain / loss	0.89	(0.35)	0.75	3.15	2.33
Total from investment activities	1.20	(0.01)	1.08	3.46	2.68
Distributions					
Net investment income	(0.32)	(0.36)	(0.36)	(0.32)	(0.38)
Net realized gain	(0.44)	(1.46)	(1.49)	(1.36)	(0.55)
Total distributions	(0.76)	(1.82)	(1.85)	(1.68)	(0.93)
<b>NET ASSET VALUE</b>					
<b>End of period</b>	<b>\$ 19.17</b>	<b>\$ 18.73</b>	<b>\$ 20.56</b>	<b>\$ 21.33</b>	<b>\$ 19.55</b>

### Ratios/Supplemental Data

<b>Total return<sup>(3)</sup></b>	<b>6.45%<sup>(2)</sup></b>	<b>(0.05)%<sup>(2)</sup></b>	<b>5.20%<sup>(2)</sup></b>	<b>17.93%<sup>(2)</sup></b>	<b>15.14%<sup>(2)</sup></b>
Ratio of total expenses to average net assets	0.77% <sup>(2)</sup>	0.77% <sup>(2)</sup>	0.77% <sup>(2)</sup>	0.77% <sup>(2)</sup>	0.77% <sup>(2)</sup>
Ratio of net investment income to average net assets	1.63% <sup>(2)</sup>	1.66% <sup>(2)</sup>	1.51% <sup>(2)</sup>	1.47% <sup>(2)</sup>	1.82% <sup>(2)</sup>
Portfolio turnover rate	75.4%	71.5%	62.1%	57.4%	58.1%
Net assets, end of period (in thousands)	\$ 159,611	\$ 163,344	\$ 188,404	\$ 182,514	\$ 159,271

(1) Per share amounts calculated using average shares outstanding method.

(2) See Note 6. Excludes expenses permanently waived 0.13%, 0.13%, 0.13%, and 0.13%, of average net assets for the years ended 12/31/16, 12/31/15, 12/31/14, 12/31/13, and 12/31/12, respectively, related to investments in T. Rowe Price mutual funds.

(3) 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.

## Portfolio of Investments†

T. Rowe Price Personal Strategy Balanced Portfolio

December 31, 2016

	Shares/Par	\$ Value
(Cost and value in \$000s)		

### COMMON STOCKS 55.0%

#### Consumer Discretionary 8.3%

##### Auto Components 0.4%

Adient (1)	854	50
Aisin Seiki (JPY)	1,300	56
Autoliv, GDR (SEK)	872	98
Delphi Automotive	2,522	170
Gentherm (1)	1,418	48
GKN (GBP)	30,364	124
Koito Manufacturing (JPY)	800	42
Sumitomo Rubber Industries (JPY)	4,300	68
		656

##### Automobiles 0.7%

BMW (EUR)	1,191	111
Ferrari	956	56
General Motors	2,192	76
Honda Motor (JPY)	7,600	221
Suzuki Motor (JPY)	4,500	158
Tesla Motors (1)	923	197
Toyota Motor (JPY)	4,000	234
		1,053

##### Distributors 0.0%

Core-Mark Holding	1,080	47
		47

##### Diversified Consumer Services 0.0%

American Public Education (1)	540	13
		13

##### Hotels, Restaurants & Leisure 1.2%

Bojangles (1)	554	10
Brinker	630	31
Compass Group (GBP)	11,076	204
Denny's (1)	2,540	33
Domino's Pizza	142	23
Hilton Worldwide Holdings	7,674	209
Jack in the Box	600	67

	Shares/Par	\$ Value
(Cost and value in \$000s)		

Las Vegas Sands	3,873	207
Marriott, Class A	2,094	173
MGM Resorts International (1)	6,104	176
Norwegian Cruise Line Holdings (1)	5,541	236
Red Robin Gourmet Burgers (1)	591	33
Royal Caribbean Cruises	1,325	109
Sonic	2,037	54
Starbucks	1,826	101
The Cheesecake Factory	380	23
Wingstop	780	23
Yum! Brands	1,960	124
		1,836

##### Household Durables 0.3%

Calatlantic	186	6
Lennar, Class A	1,925	83
Meritage (1)	620	22
Panasonic (JPY)	14,600	148
Persimmon (GBP)	6,628	145
Sony (JPY)	2,500	69
Tempur Sealy International (1)	1,170	80
		553

##### Internet & Direct Marketing Retail 2.6%

Amazon.com (1)	3,245	2,433
Ctrip.com International ADR (1)	3,379	135
Etsy (1)	730	9
HSN	360	12
Netflix (1)	2,928	363
Priceline (1)	853	1,251
		4,203

##### Leisure Products 0.1%

Arctic Cat (1)	370	5
Mattel	6,317	174
Nautilus Group (1)	420	8
		187

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Media 1.1%</b>		
Cable One	54	34
Charter Communications		
Class A (1)	568	163
Comcast, Class A	4,574	316
CyberAgent (JPY)	3,400	84
Eutelsat		
Communications		
(EUR)	4,497	87
Informa (GBP)	1,587	13
Liberty Global, Class A (1)	2,964	91
Liberty Global, Series C (1)	4,832	143
New Media Investment	620	10
Scholastic	504	24
Sky (GBP)	16,657	203
Time Warner	479	46
Twenty-First Century Fox	7,900	215
Walt Disney	1,008	105
WPP (GBP)	10,151	227
		1,761
<b>Multiline Retail 0.2%</b>		
Dollar General	2,554	189
Lojas Renner (BRL)	8,816	63
Marks &		
Spencer Group (GBP)	13,519	58
Ollies Bargain Outlet		
Holdings (1)	380	11
Tuesday Morning (1)	3,490	19
		340
<b>Specialty Retail 1.3%</b>		
At Home (1)	282	4
AutoZone (1)	186	147
Burlington Stores (1)	400	34
Chico's	2,540	37
Five Below (1)	310	12
Home Depot	2,451	329
Kingfisher (GBP)	44,624	192
L Brands	992	65
Lowe's	6,805	484
Michaels (1)	1,230	25
Monro Muffler Brake	400	23

	Shares/Par	\$ Value
(Cost and value in \$000s)		
O'Reilly Automotive (1)	1,085	302
RH	440	13
Ross Stores	3,141	206
Tile Shop Holdings (1)	1,980	39
TSC	970	74
Zumiez (1)	1,520	33
		2,019
<b>Textiles, Apparel &amp; Luxury Goods 0.4%</b>		
Burberry (GBP)	8,340	154
Coach	933	32
Hanesbrands	2,421	52
Kering (EUR)	494	111
Moncler (EUR)	5,389	94
Samsonite		
International (HKD)	34,800	99
Skechers U.S.A., Class A (1)	1,590	39
		581
Total Consumer Discretionary		13,249
<b>Consumer Staples 3.7%</b>		
<b>Beverages 0.4%</b>		
Boston Beer, Class A (1)	130	22
Constellation		
Brands, Class A	600	92
Diageo (GBP)	7,570	196
Dr Pepper Snapple	70	6
Kirin Holdings (JPY)	7,900	128
Molson Coors		
Brewing, Class B	705	69
Monster Beverage (1)	690	30
PepsiCo	761	80
		623
<b>Food &amp; Staples Retailing 0.7%</b>		
Costco Wholesale	390	62
CVS Health	1,010	80
Performance Food (1)	470	11
Seven & i Holdings (JPY)	4,400	168
Sprouts Farmers Market (1)	750	14
Wal-Mart	2,826	195

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Walgreens Boots Alliance	7,390	612
		1,142
<b>Food Products 1.5%</b>		
Bunge Limited	2,439	176
Cal-Maine Foods	712	31
Danone (EUR)	1,211	77
J.M. Smucker	150	19
Kraft Heinz	194	17
Mondelez International	4,611	204
Nestle (CHF)	8,890	638
Pinnacle Foods	1,380	74
Post Holdings (1)	520	42
Snyders-Lance	490	19
TreeHouse Foods (1)	830	60
Tyson Foods, Class A	14,464	892
Wilmar		
International (SGD)	44,400	109
		2,358
<b>Personal Products 0.5%</b>		
Conyers Park Acquisition		
Equity Units (1)	1,117	12
Coty, Class A	5,157	94
L'Oreal (EUR)	1,244	227
Pola Orbis		
Holdings (JPY) (2)	1,000	83
Unilever (GBP)	10,392	420
		836
<b>Tobacco 0.6%</b>		
Philip Morris International	10,161	930
		930
Total Consumer Staples		<b>5,889</b>
<b>Energy 2.6%</b>		
<b>Energy Equipment &amp; Services 0.1%</b>		
Baker Hughes	509	33
Diamond Offshore		
Drilling (1)	1,010	18
Dril-Quip (1)	250	15
Forum Energy		
Technologies (1)	560	12

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Frank's International	570	7
SEACOR Holdings (1)	500	36
Tesco (1)	810	7
WorleyParsons (AUD) (1)	9,503	66
		194
<b>Oil, Gas &amp; Consumable Fuels 2.5%</b>		
Beach Energy (AUD)	43,833	27
Centennial Resource		
Development (1)	507	10
Centennial Resource		
Development		
Acquisition Date:		
12/28/16		
Cost \$5 (1)(3)	356	7
Centennial Resource		
Development		
Warrants		
10/11/21 (1)	162	1
Chevron	3,690	434
Diamondback Energy (1)	380	38
Encana	8,314	98
EOG Resources	1,963	199
EQT	951	62
Exxon Mobil Corporation	6,544	591
Hess	1,294	81
Marathon Petroleum	5,820	293
Matador Resources (1)	1,140	29
Occidental Petroleum	3,734	266
Parsley Energy (1)	790	28
Rice Energy (1)	650	14
Royal Dutch Shell		
B Shares, ADR	4,749	275
SM Energy	360	12
Spectra Energy	5,043	207
Statoil (NOK)	7,421	135
Targa Resources	394	22
Total, Rights, 1/4/17		
(EUR) (1)	5,525	—
Total (EUR)	5,525	282
Total, ADR	10,972	559

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
TransCanada	5,688	257
		3,927
Total Energy		<b>4,121</b>
<b>Financials 10.8%</b>		
<b>Banks 4.9%</b>		
Atlantic Capital Bancshares (1)	688	13
Australia & New Zealand Banking (AUD)	12,100	265
BankUnited	1,840	69
Barclays, ADR	6,204	68
Blue Hills Bancorp	684	13
BNC Bancorp	958	31
BNP Paribas (EUR)	4,596	293
Bridge Bancorp	690	26
Capital Bank Financial	1,070	42
Chemical Financial	397	22
Citigroup	9,499	565
Citizens Financial	760	27
Commerzbank (EUR)	5,132	39
CU Bancorp (1)	20	1
Danske Bank A Shares (DKK)	4,851	147
DBS Group (SGD)	15,375	183
DNB (NOK)	20,089	299
East West Bancorp	630	32
FB Financial (1)	400	10
Fifth Third Bancorp	13,934	376
First Hawaiian	414	14
First Horizon National	2,970	59
First Republic Bank	178	16
Glacier Bancorp	577	21
Heritage Commerce	1,198	17
Home Bancshares	1,350	37
ING Groep (EUR)	20,425	287
Intesa Sanpaolo (EUR)	62,937	161
JPMorgan Chase	19,231	1,659
KeyCorp	15,091	276
Live Oak Bancshares	190	4

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Lloyds Banking Group (GBP)	186,949	144
National Bank of Canada (CAD)	4,800	195
Nordea Bank (SEK)	18,077	201
Pacific Continental	418	9
Park Sterling	1,854	20
Pinnacle Financial Partners	380	26
PNC Financial Services Group	130	15
Popular	730	32
Prosperity Bancshares	710	51
Simmons First National	240	15
Standard Chartered (GBP) (1)	10,323	85
Sumitomo Mitsui Trust Holdings (JPY) (2)	4,635	165
Svenska Handelsbanken A Shares (SEK)	17,332	241
Swedbank (SEK)	5,612	136
Synovus Financial	853	35
Texas Capital Bancshares (1)	750	59
Towne Bank / Portsmouth VA	840	28
U.S. Bancorp	5,720	294
United Overseas Bank (SGD)	7,400	104
Webster Financial	647	35
Wells Fargo	13,033	718
WestAmerica Bank	270	17
Western Alliance Bancorp (1)	1,380	67
		7,764
<b>Capital Markets 2.9%</b>		
Ameriprise Financial	3,713	412
Bank of New York Mellon	13,197	625
Bats Global Markets	1,579	53
BlackRock	144	55
Charles Schwab	7,786	307
Close Brothers Group (GBP)	1,530	27
CME Group	506	58

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Cohen & Steers	520	17
E*TRADE Financial (1)	2,060	71
Financial Engines	910	33
GAM Holding (CHF)	6,697	78
Goldman Sachs	100	24
IHS Markit (1)	1,180	42
Intercontinental Exchange	7,175	405
Janus Capital Group	510	7
Macquarie Group (AUD)	2,517	159
Morgan Stanley	27,867	1,177
Northern Trust	335	30
S&P Global	445	48
State Street	7,177	558
TD Ameritrade Holding	9,010	393
WisdomTree Investments	970	11
		4,590
<b>Consumer Finance 0.2%</b>		
Credit Saison (JPY)	5,000	89
Encore Capital (1)	840	24
SLM Corporation (1)	3,424	38
Synchrony Financial	5,664	205
		356
<b>Diversified Financial Services 0.1%</b>		
Challenger (AUD)	20,579	167
Mitsubishi UFJ Lease & Finance (JPY)	17,900	92
		259
<b>Insurance 2.6%</b>		
AIA Group (HKD)	23,400	131
Allianz (EUR)	1,050	174
American International Group	4,593	300
Aon	110	12
Assured Guaranty	1,444	54
Aviva (GBP)	31,164	186
AXA (EUR)	13,334	336
Chubb	570	75
Direct Line Insurance (GBP)	34,347	156
Enstar (1)	120	24

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Infinity Property & Casualty	549	48
Marsh & McLennan	6,749	456
MetLife	6,437	347
Munich Re (EUR)	812	154
Ping An Insurance H Shares (HKD)	15,500	77
Prudential (GBP)	10,781	215
RLI	220	14
RSA Insurance Group (GBP)	21,363	154
Safety Insurance Group	270	20
Selective Insurance	1,260	54
State Auto Financial	680	18
Storebrand (NOK)(1)	22,314	119
Sun Life Financial (CAD)	5,100	196
Tokio Marine Holdings (JPY)	6,100	249
Willis Towers Watson	1,356	166
XL	11,134	415
		4,150
<b>Mortgage Real Estate Investment Trusts 0.0%</b>		
Hannon Armstrong Sustainable Infrastructure Capital, REIT	720	14
		14
<b>Thriffs &amp; Mortgage Finance 0.1%</b>		
Beneficial Bancorp	1,683	31
Capitol Federal Financial	2,002	33
Clifton Bancorp	370	6
Essent (1)	340	11
Kearny Financial Corp/MD	820	13
Meridian Bancorp	1,110	21
PennyMac Financial Services (1)	400	7
Radian	1,910	34
		156
Total Financials		<b>17,289</b>

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Health Care 8.2%</b>		
<b>Biotechnology 1.3%</b>		
ACADIA		
Pharmaceuticals (1)	480	14
Accelaron Pharma (1)	410	10
Advanced Accelerator		
Applications, ADR (1)	200	5
Alexion Pharmaceuticals (1)	2,607	319
Alkermes (1)	540	30
Aquinox		
Pharmaceuticals (1)	253	4
ARIAD Pharmaceuticals (1)	1,013	13
Biogen (1)	1,058	300
Blueprint Medicines (1)	60	2
Celgene (1)	3,711	430
CoLucid		
Pharmaceuticals (1)	292	11
CSL (AUD)	1,133	82
Exelixis (1)	1,420	21
Gilead Sciences	1,545	111
Inmed (1)	860	11
Ionis Pharmaceuticals (1)	310	15
Ironwood		
Pharmaceuticals (1)	1,380	21
Ophthotech (1)	19	—
Prothena (1)	80	4
Radius Health (1)	560	21
Regeneron		
Pharmaceuticals (1)	22	8
SAGE Therapeutics (1)	180	9
Seattle Genetics (1)	300	16
Shire, ADR	1,719	293
Spark Therapeutics (1)	240	12
Tesaro (1)	380	51
Ultragenyx		
Pharmaceutical (1)	30	2
Vertex Pharmaceuticals (1)	2,195	162
Xencor (1)	295	8
		1,985
<b>Health Care Equipment &amp; Supplies 2.0%</b>		
Abbott Laboratories	4,514	173

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Accuray (1)	1,335	6
Becton, Dickinson & Company	2,853	472
C. R. Bard	90	20
Danaher	10,388	809
Dentsply Sirona	230	13
Elekta, B Shares (SEK)	7,002	62
Entellus Medical (1)	170	3
GN Store Nord (DKK)	5,728	119
Halyard Health (1)	940	35
Hologic (1)	5,000	201
Intuitive Surgical (1)	449	285
K2M Group Holdings (1)	2,716	54
Medtronic	6,176	440
Meridian Bioscience	480	8
Sonova (CHF)	338	41
Steris	690	46
Stryker	2,857	342
Wright Medical (1)	1,855	43
		3,172
<b>Health Care Providers &amp; Services 1.8%</b>		
Acadia Healthcare (1)	810	27
Aetna	6,078	754
Anthem	2,052	295
Cardinal Health	21	2
Centene (1)	1,080	61
Cigna	726	97
Cross Country		
Healthcare (1)	850	13
Fresenius (EUR)	3,965	310
HCA Holdings (1)	3,057	226
Henry Schein (1)	106	16
Humana	923	188
LifePoint Health (1)	370	21
McKesson	515	72
Miraca Holdings (JPY)	2,100	94
U.S. Physical Therapy	335	24
UnitedHealth Group	4,169	667
Universal American (1)	404	4
WellCare Health Plans (1)	568	78
		2,949

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Health Care Technology 0.0%</b>		
HMS Holdings (1)	2,370	43
		43
<b>Life Sciences Tools &amp; Services 0.5%</b>		
Agilent Technologies	4,631	211
Bruker	1,208	26
Illumina (1)	15	2
Thermo Fisher Scientific	4,119	581
		820
<b>Pharmaceuticals 2.6%</b>		
Allergan (1)	1,759	369
Astellas Pharma (JPY)	18,200	252
Bayer (EUR)	4,759	496
Bristol-Myers Squibb	4,410	258
Catalent (1)	1,009	27
Eli Lilly	820	60
GlaxoSmithKline, ADR	4,200	162
Mallinckrodt (1)	1,100	55
Medicines Company (1)	550	19
Merck	8,185	482
Novartis, Regulation D Shares (CHF)	6,038	439
Novo Nordisk (DKK)	2,051	74
Pacira Pharmaceuticals (1)	730	24
Pfizer	17,233	560
Roche Holding (CHF)	1,694	386
Sanofi (EUR)	3,762	304
Takeda Pharmaceutical (JPY)	2,500	103
Therapeutics MD (1)	2,050	12
Zoetis	2,113	113
		4,195
Total Health Care		<b>13,164</b>

**Industrials & Business Services 5.8%**
**Aerospace & Defense 1.1%**

Boeing	5,037	784
BWX Technologies	510	20
General Dynamics	30	5
Harris	1,475	151

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Hexcel	810	42
Meggitt (GBP)	23,358	132
Moog, Class A (1)	430	28
Northrop Grumman	409	95
Raytheon	194	28
Rockwell Collins	1,288	120
Teledyne Technologies (1)	550	68
Textron	1,450	70
Triumph Group	880	23
United Technologies	1,773	194
		1,760
<b>Air Freight &amp; Logistics 0.1%</b>		
FedEx	1,142	213
		213
<b>Airlines 0.9%</b>		
Alaska Air Group	2,949	262
American Airlines	18,973	886
Delta Air Lines	1,300	64
United Continental (1)	2,553	186
		1,398
<b>Building Products 0.4%</b>		
AAON	720	24
Gibraltar Industries (1)	194	8
Johnson Controls International	10,986	453
Lennox International	271	41
PGT Innovations (1)	1,144	13
Quanex Building Products	1,070	22
Simpson Manufacturing	550	24
		585

**Commercial Services & Supplies 0.3%**

Brinks Company	1,430	59
Healthcare Services	280	11
HNI Corporation	100	6
Matthews International Class A	220	17
Mobile Mini	710	21
MSA Safety	820	57
Multi-Color	320	25
Ritchie Bros. Auctioneers	1,560	53



## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
SP Plus (1)	390	11
Stericycle (1)	1,689	130
Waste Connections	585	46
		436
<b>Construction &amp; Engineering 0.0%</b>		
Comfort Systems USA	230	8
Valmont Industries	281	39
		47
<b>Electrical Equipment 0.4%</b>		
ABB (CHF)	6,652	140
AZZ	770	49
Legrand (EUR)	2,436	138
Mitsubishi Electric (JPY)	24,400	339
Thermon Group Holdings (1)	410	8
		674
<b>Industrial Conglomerates 1.1%</b>		
CK Hutchison Holdings (HKD)	17,284	195
DCC (GBP)	1,954	145
GE	15,551	491
Honeywell International	1,399	162
Koninklijke Philips (EUR)	7,730	235
Roper Technologies	1,409	258
Sembcorp Industries (SGD)	15,609	31
Siemens (EUR)	2,309	284
		1,801
<b>Machinery 0.7%</b>		
Alamo	250	19
Albany International	430	20
Chart Industries (1)	850	31
ESCO Technologies	920	52
Fortive	4,830	259
Graco	360	30
Graham	150	3
Illinois Tool Works	654	80
John Bean Technologies	870	75
Luxfer Holdings, ADR	930	10
Manitowoc (1)	1,880	11
Manitowoc Foodservice (1)	1,400	27

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Mueller Water Products	2,250	30
Pentair	916	51
RBC Bearings (1)	540	50
SMC (JPY)	300	71
Sun Hydraulics	590	24
Tennant	340	24
THK (JPY)	6,200	137
Toro	1,159	65
Wabtec	202	17
Woodward	80	6
		1,092
<b>Marine 0.1%</b>		
Maersk, Series B (DKK)	65	104
Matson	790	28
Nippon Yusen KK (JPY)	18,000	33
		165
<b>Professional Services 0.1%</b>		
Equifax	72	8
Exponent	360	22
Recruit Holdings (JPY)	2,200	88
		118
<b>Road &amp; Rail 0.3%</b>		
Canadian Pacific Railway	876	125
Central Japan Railway (JPY)	1,000	164
J.B. Hunt Transport Services	681	66
Kansas City Southern	172	15
Knight Transportation	1,155	38
Landstar System	360	31
Norfolk Southern	100	11
Saia (1)	770	34
Union Pacific	25	2
		486
<b>Trading Companies &amp; Distributors 0.3%</b>		
Applied Industrial Technologies	370	22
Mitsubishi (JPY)	6,900	147
Rush Enterprises Class A (1)	700	22
Sumitomo (JPY)	18,100	213

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Univar (1)	888	25
		429
Total Industrials & Business Services		<b>9,204</b>

**Information Technology 9.7%**
**Communications Equipment 0.4%**

ADTRAN	790	18
Ciena (1)	1,270	31
Cisco Systems	12,970	392
Finisar (1)	1,898	57
Ixia (1)	870	14
LM Ericsson (SEK)	12,370	72
		584

**Electronic Equipment, Instruments & Components 0.3%**

CTS	720	16
Hamamatsu		
Photonics (JPY)	2,200	58
Keysight Technologies (1)	1,607	59
National Instruments	1,090	33
Omron (JPY)	2,900	111
TE Connectivity	2,329	161
		438

**Internet Software & Services 3.2%**

Alibaba Group		
Holding, ADR (1)	7,438	653
Alphabet, Class A (1)	935	741
Alphabet, Class C (1)	1,651	1,274
Apptio, Acquisition Date:		
3/9/12, Cost \$6 (1)(3)	330	6
Baidu, ADR (1)	904	149
Facebook (1)	11,784	1,356
Five9 (1)	1,830	26
GrubHub (1)	787	30
Kakaku.com (JPY)	3,900	64
NAVER (KRW)	87	56
New Relic (1)	428	12
Pandora Media (1)	790	10
Quotient Technology (1)	849	9

	Shares/Par	\$ Value
(Cost and value in \$000s)		
SVMK (f/k/a		
SurveyMonkey)		
Acquisition Date:		
11/25/14		
Cost \$4 (1)(3)(4)	226	2
Tencent Holdings (HKD)	24,300	590
Yahoo! Japan (JPY)	36,500	140
YY, ADR (1)	1,500	59
Zillow (1)	60	2
Zillow, Class C (1)	100	4
		5,183

**IT Services 1.6%**

Booz Allen Hamilton	830	30
CSRA	1,110	35
EPAM Systems (1)	210	14
Fidelity National		
Information	1,342	102
Fiserv (1)	3,007	320
FleetCor Technologies (1)	313	44
Global Payments	130	9
Infosys, ADR	8,800	130
MasterCard, Class A	7,749	800
PayPal Holdings (1)	5,321	210
Visa, Class A	10,791	842
		2,536

**Semiconductor & Semiconductor Equipment 1.5%**

Analog Devices	1,338	97
Applied Materials	2,500	81
ASML Holding (EUR)	1,062	119
Broadcom	2,330	412
Cavium (1)	480	30
Diodes (1)	890	23
Inphi (1)	220	10
Integrated Device		
Technology (1)	900	21
Lattice Semiconductor (1)	2,257	17
MACOM Technology		
Solutions Holdings (1)	330	15
Microchip Technology	1,077	69
Microsemi (1)	1,027	55
NXP Semiconductors (1)	4,272	419
PDF Solutions (1)	930	21

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Qualcomm	3,880	253
Rambus (1)	2,150	30
Semtech (1)	870	27
Taiwan Semiconductor Manufacturing (TWD)	50,219	281
Texas Instruments	2,910	212
Tokyo Electron (JPY)	1,600	151
		2,343
<b>Software 2.2%</b>		
Activision Blizzard	250	9
Blackbaud	170	11
Bottomline Technologies (1)	1,160	29
BroadSoft (1)	420	17
Computer Modelling (CAD)	770	5
Cyber-Ark Software (1)	700	32
Descartes Systems (1)	1,990	43
Electronic Arts (1)	1,860	146
Ellie Mae (1)	458	38
Fortinet (1)	220	7
Guidewire Software (1)	930	46
Intuit	601	69
Microsoft	29,726	1,847
Progress Software	740	24
Proofpoint (1)	970	69
Red Hat (1)	4,105	286
RingCentral (1)	870	18
salesforce.com (1)	6,587	451
ServiceNow (1)	3,535	263
SS&C Technologies Holdings	2,510	72
Tableau Software (1)	430	18
Tangoe (1)	2,235	18
Workday (1)	900	59
Zendesk (1)	770	16
		3,593
<b>Technology Hardware, Storage &amp; Peripherals 0.5%</b>		
Apple	5,606	650
Samsung Electronics (KRW)	109	161

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Western Digital	739	50
		861
Total Information Technology		<b>15,538</b>
<b>Materials 1.5%</b>		
<b>Chemicals 0.7%</b>		
Air Liquide (EUR)	968	107
Asahi Kasei (JPY)	18,000	157
Ashland Global Holdings	1,487	163
BASF (EUR)	1,861	174
CF Industries	943	30
Covestro (EUR)	1,212	83
Ecolab	207	24
EI du Pont de Nemours	3,165	232
Flotek Industries (1)	820	8
Minerals Technologies	462	36
PolyOne	550	18
Sherwin-Williams	91	24
Tosoh (JPY)	5,000	35
Umicore (EUR)	1,650	94
		1,185
<b>Construction Materials 0.1%</b>		
Forterra (1)	440	10
Martin Marietta Materials	50	11
Vulcan Materials	625	78
		99
<b>Containers &amp; Packaging 0.3%</b>		
Ball	3,529	265
International Paper	3,475	184
Multi Packaging Solutions International (1)	1,474	21
		470
<b>Metals &amp; Mining 0.3%</b>		
Antofagasta (GBP)	8,002	66
BHP Billiton Limited (AUD)	2,457	44
BHP Billiton Plc (GBP)	7,739	122
Compass Minerals	130	10
Constellium (1)	1,120	7
Franco-Nevada (CAD)	220	13

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Haynes International	370	16
New Gold (CAD) (1)	5,010	17
Osisko Gold		
Royalties (CAD)	900	9
Petra Diamonds (GBP) (1)	2,748	5
Rio Tinto (AUD)	1,618	70
South32 (AUD)	52,892	104
		483

### Paper & Forest Products 0.1%

Clearwater Paper (1)	290	19
Louisiana Pacific (1)	810	15
Stora Enso, Class R (EUR)	10,862	117
West Fraser Timber (CAD)	200	7
		158

Total Materials

**2,395**

### Real Estate 1.2%

#### Equity Real Estate Investment Trusts 1.1%

Acadia Realty Trust, REIT	400	13
American Campus		
Communities, REIT	700	35
American Tower, REIT	4,969	525
CatchMark Timber		
Trust, Class A, REIT	900	10
Chesapeake Lodging		
Trust, REIT	610	16
Corporate Office Properties		
Trust, REIT	1,060	33
EastGroup Properties, REIT	580	43
Equinix, REIT	165	59
Equity Commonwealth		
REIT (1)	1,110	34
Equity One, REIT	770	24
General Growth		
Properties, REIT	3,600	90
Great Portland		
Estates (GBP)	5,828	48
Outfront Media, REIT	380	9
Paramount, REIT	1,190	19
PS Business Parks, REIT	543	63
Retail Opportunity		
Investments, REIT	1,580	33

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Scentre (AUD)	37,451	126
Unibail-Rodamco (EUR)	521	124
Urban Edge		
Properties, REIT	750	21
Urstadt Biddle Properties		
Class A, REIT	660	16
VEREIT, REIT	20,901	177
Weyerhaeuser, REIT	5,594	168
		1,686

### Real Estate Management & Development 0.1%

Alexander & Baldwin	770	35
Cheung Kong Property		
Holdings (HKD)	10,784	66
FirstService	408	19
Forestar Group (1)	780	10
Mitsui Fudosan (JPY)	3,000	69
RE/MAX Holdings	380	21
		220

Total Real Estate

**1,906**

### Telecommunication Services 1.2%

#### Diversified Telecommunication Services 0.9%

KT (KRW)	3,605	95
Nippon Telegraph &		
Telephone (JPY)	9,100	383
Tele Danmark (DKK) (1)	26,729	137
Telecom Italia (EUR)	110,950	80
Telefonica (EUR)	13,605	126
Telefonica Deutschland		
Holding (EUR)	43,387	185
Telstra (AUD)	10,542	39
Verizon Communications	6,492	347
		1,392

#### Wireless Telecommunication Services 0.3%

America Movil, ADR	6,000	75
Softbank (JPY)	1,600	106
Vodafone, ADR	10,609	259
		440

Total Telecommunication Services

**1,832**

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Utilities 2.0%</b>		
<b>Electric Utilities 1.2%</b>		
American Electric Power	4,875	307
El Paso Electric	240	11
Eversource Energy	926	51
Exelon	16,440	583
FirstEnergy	2,439	75
Great Plains Energy	4,045	111
NextEra Energy	1,539	184
PG&E	7,791	473
PNM Resources	1,590	55
Portland General Electric	960	42
SSE (GBP)	4,857	93
		1,985
<b>Gas Utilities 0.1%</b>		
Chesapeake Utilities	260	17
ONE Gas	1,190	76
South Jersey Industries	470	16
Southwest Gas Holdings	590	45
		154
<b>Independent Power &amp; Renewable Electricity Producers 0.3%</b>		
AES	11,370	132
Electric Power Development (JPY)	3,100	71
Nextera Energy Partners Partnership	470	12
NRG Energy	9,177	113
		328
<b>Multi-Utilities 0.4%</b>		
DTE Energy	1,470	145
E.ON (EUR)	6,374	44
Engie (EUR)	11,185	143
National Grid (GBP)	15,712	184
NorthWestern	230	13
Sempra Energy	1,346	135
		664

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Water Utilities 0.0%</b>		
California Water Service Group	910	31
		31
Total Utilities		<b>3,162</b>
Total Miscellaneous Common Stocks 0.0%		<b>55</b>
<b>Total Common Stocks (Cost \$57,822)</b>		
		<b>87,804</b>
<b>CONVERTIBLE PREFERRED STOCKS 0.1%</b>		
<b>Information Technology 0.0%</b>		
<b>Internet Software &amp; Services 0.0%</b>		
Cargurus, Series D		
Acquisition Date:		
7/7/15		
Cost \$5 (1)(3)(4)	111	6
Cargurus, Series E		
Acquisition Date:		
8/23/16		
Cost \$3 (1)(3)(4)	57	3
Cloudera, Series F		
Acquisition Date:		
2/5/14		
Cost \$4 (1)(3)(4)	292	6
MongoDB, Series F		
Acquisition Date:		
10/2/13		
Cost \$4 (1)(3)(4)	232	1
		16
<b>Software 0.0%</b>		
Plex Systems, Series B		
Acquisition Date:		
6/9/14		
Cost \$5 (1)(3)(4)	2,270	4
		4
Total Information Technology		<b>20</b>

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Real Estate 0.0%</b>		
<b>Equity Real Estate Investment Trusts 0.0%</b>		
American Tower Series A, REIT	354	37
Total Real Estate		<b>37</b>
<b>Utilities 0.1%</b>		
<b>Electric Utilities 0.1%</b>		
NextEra Energy	2,408	117
Total Utilities		<b>117</b>
<b>Total Convertible Preferred Stocks (Cost \$175)</b>		<b>174</b>
<b>CORPORATE BONDS 6.7%</b>		
21st Century Fox America 4.75%, 9/15/44	100,000	99
Abbott Laboratories 2.90%, 11/30/21	55,000	55
Abbott Laboratories 3.75%, 11/30/26	95,000	94
AbbVie 4.45%, 5/14/46	65,000	62
ACE INA Holdings 4.35%, 11/3/45	30,000	32
Aetna 3.20%, 6/15/26	55,000	54
Agilent Technologies 3.20%, 10/1/22	15,000	15
Agilent Technologies 3.875%, 7/15/23	10,000	10
Alibaba Group Holding 3.60%, 11/28/24	200,000	198
American Airlines PTT Series 2013-1, Class A 4.00%, 7/15/27	21,262	22
American Airlines PTT Series 2014-1, Class B 4.375%, 4/1/24	4,107	4
American Airlines PTT Series 2015-1, Class B 3.70%, 11/1/24	12,862	13
American Airlines PTT Series 2016-1, Class AA 3.575%, 7/15/29	14,963	15

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Anthem 4.65%, 1/15/43	35,000	35
APT Pipelines 3.875%, 10/11/22 <sup>(5)</sup>	35,000	35
Arconic 6.15%, 8/15/20	80,000	87
Arrow Electronics 3.50%, 4/1/22	30,000	30
AT&T 4.80%, 6/15/44	65,000	62
Avnet Electronic 4.625%, 4/15/26	40,000	39
Bank of America 3.248%, 10/21/27	65,000	62
Bank of America 3.30%, 1/11/23	165,000	165
Bank of America 4.45%, 3/3/26	50,000	51
Barclays 5.20%, 5/12/26	200,000	204
BBVA Bancomer 4.375%, 4/10/24 <sup>(5)</sup>	150,000	152
Biogen 4.05%, 9/15/25	65,000	67
Boston Properties 3.65%, 2/1/26	30,000	30
Brambles 4.125%, 10/23/25 <sup>(5)</sup>	20,000	20
Brixmor Operating Partnership 3.85%, 2/1/25	60,000	59
Brixmor Operating Partnership 3.875%, 8/15/22	65,000	66
Catholic Health Initiatives 2.95%, 11/1/22	20,000	19
CC Holdings 3.849%, 4/15/23	150,000	152
Celgene 3.875%, 8/15/25	60,000	61
Charter Communications Operating 4.908%, 7/23/25	110,000	116
Charter Communications Operating 6.384%, 10/23/35	10,000	11
Charter Communications Operating 6.484%, 10/23/45	30,000	35
Citigroup 3.20%, 10/21/26	205,000	195
CNA Financial 3.95%, 5/15/24	45,000	45

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
CNA Financial		
5.875%, 8/15/20	35,000	39
Constellation Energy		
5.15%, 12/1/20	50,000	54
Crown Castle International		
5.25%, 1/15/23	35,000	38
Crown Castle Towers		
3.663%, 5/15/45 <sup>(5)</sup>	85,000	86
Crown Castle Towers		
6.113%, 1/15/40 <sup>(5)</sup>	64,000	69
CVS Health		
3.50%, 7/20/22	40,000	41
DDR		
4.25%, 2/1/26	65,000	65
Delta Airlines		
7.75%, 6/17/21	5,750	6
Delta Airlines, ETC		
4.95%, 5/23/19	4,468	5
Delta Airlines, ETC		
Series 2015-1AA		
3.625%, 1/30/29	33,540	34
Delta Airlines		
Series 2011-1		
5.30%, 10/15/20	2,601	3
Discover Financial Services		
3.75%, 3/4/25	120,000	116
Duke Energy		
2.65%, 9/1/26	30,000	28
Duke Energy		
3.75%, 9/1/46	25,000	22
Ecolab		
2.70%, 11/1/26	25,000	24
Enbridge		
4.00%, 10/1/23	20,000	20
Enbridge		
4.25%, 12/1/26	15,000	15
Enbridge		
5.50%, 12/1/46	25,000	27
Enbridge, VR		
6.00%, 1/15/77	35,000	35
Encana,		
3.90%, 11/15/21	15,000	15
EnLink Midstream Partners		
4.85%, 7/15/26	30,000	30
Enterprise Products		
Operations		
3.95%, 2/15/27	20,000	20
ERAC USA Finance		
3.80%, 11/1/25 <sup>(5)</sup>	40,000	40
Essex Portfolio		
3.375%, 4/15/26	35,000	34

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Exelon		
2.85%, 6/15/20	25,000	25
Exelon Generation		
2.95%, 1/15/20	35,000	35
Expedia		
5.00%, 2/15/26	100,000	103
Express Scripts Holding		
4.50%, 2/25/26	60,000	62
Express Scripts Holding		
4.80%, 7/15/46	30,000	29
FirstEnergy Transmission		
4.35%, 1/15/25 <sup>(5)</sup>	65,000	67
GATX		
2.50%, 3/15/19	50,000	50
GATX		
2.50%, 7/30/19	35,000	35
GATX		
3.25%, 3/30/25	20,000	19
GATX		
4.85%, 6/1/21	35,000	38
General Motors		
4.00%, 4/1/25	70,000	68
Goldman Sachs		
3.50%, 11/16/26	70,000	69
Goldman Sachs		
5.75%, 1/24/22	110,000	123
Goldman Sachs		
6.75%, 10/1/37	60,000	74
GTP Acquisition Partners		
2.50%, 6/15/45 <sup>(5)</sup>	100,000	97
Harris		
2.70%, 4/27/20	10,000	10
Harris		
3.832%, 4/27/25	15,000	15
Harris		
4.854%, 4/27/35	75,000	78
Harvard University		
Presidents & Fellows		
3.619%, 10/1/37	20,000	20
Heathrow Funding		
4.875%, 7/15/23 <sup>(5)</sup>	100,000	107
Hess		
4.30%, 4/1/27	25,000	25
Hess		
5.80%, 4/1/47	15,000	16
Holcim		
6.00%, 12/30/19 <sup>(5)</sup>	35,000	38
Humana		
3.85%, 10/1/24	110,000	112
Humana		
4.95%, 10/1/44	75,000	78

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Imperial Tobacco Finance 2.95%, 7/21/20 <sup>(5)</sup>	200,000	201
ING Bank, VR 4.125%, 11/21/23	205,000	208
International Paper 4.40%, 8/15/47	70,000	66
Interpublic Group of Companies 3.75%, 2/15/23	25,000	25
Interpublic Group of Companies 4.00%, 3/15/22	50,000	52
Interpublic Group of Companies 4.20%, 4/15/24	15,000	15
JPMorgan Chase 3.875%, 9/10/24	61,000	62
JPMorgan Chase, VR 2.112%, 10/24/23	205,000	208
Kaiser Permanente 3.50%, 4/1/22	30,000	31
Kimco Realty 2.80%, 10/1/26	40,000	37
Kimco Realty 3.40%, 11/1/22	10,000	10
Kinder Morgan 5.05%, 2/15/46	10,000	10
Kinder Morgan 5.55%, 6/1/45	60,000	63
Kinder Morgan Energy Partners 5.95%, 2/15/18	15,000	16
Kinder Morgan Finance 6.00%, 1/15/18 <sup>(5)</sup>	25,000	26
Liberty Mutual Group 4.85%, 8/1/44 <sup>(5)</sup>	95,000	93
Life Technologies 6.00%, 3/1/20	115,000	125
Lockheed Martin 3.55%, 1/15/26	50,000	51
Lockheed Martin 3.60%, 3/1/35	20,000	19
Martin Marietta Materials 4.25%, 7/2/24	65,000	66
Massachusetts Institute of Technology 3.959%, 7/1/38	30,000	31
Mead Johnson Nutrition 4.125%, 11/15/25	35,000	36
Medtronic 4.625%, 3/15/45	70,000	76

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Morgan Stanley 2.625%, 11/17/21	75,000	74
Morgan Stanley 3.125%, 7/27/26	30,000	28
Morgan Stanley 3.70%, 10/23/24	20,000	20
Morgan Stanley 3.75%, 2/25/23	120,000	123
Morgan Stanley 4.35%, 9/8/26	110,000	112
MPT Operating Partnership 5.25%, 8/1/26	25,000	25
Nationwide Building Society 3.90%, 7/21/25 <sup>(5)</sup>	200,000	204
Newell Rubbermaid 5.50%, 4/1/46	40,000	46
O'Reilly Automotive 3.80%, 9/1/22	100,000	103
Omnicom Group 3.60%, 4/15/26	100,000	99
Priceline Group 3.60%, 6/1/26	40,000	39
Priceline Group 3.65%, 3/15/25	60,000	60
Principal Financial Group, VR 4.70%, 5/15/55	70,000	68
QVC 3.125%, 4/1/19	95,000	96
QVC 4.85%, 4/1/24	50,000	50
QVC 5.125%, 7/2/22	30,000	31
Reinsurance Group of America 5.00%, 6/1/21	30,000	32
Reinsurance Group of America 6.45%, 11/15/19	45,000	50
Reynolds American 4.45%, 6/12/25	50,000	53
Reynolds American 5.85%, 8/15/45	30,000	35
Sabine Pass Liquefaction 5.00%, 3/15/27 <sup>(5)</sup>	150,000	152
Santander UK 2.875%, 10/16/20	20,000	20
SBA Tower Trust 2.898%, 10/15/44 <sup>(5)</sup>	45,000	45
SBA Tower Trust 2.933%, 12/9/42 <sup>(5)</sup>	35,000	35
SBA Tower Trust 3.156%, 10/15/45 <sup>(5)</sup>	30,000	30



## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
SBA Tower Trust		
3.869%, 10/15/49 <sup>(5)</sup>	80,000	79
Schlumberger Holdings		
3.00%, 12/21/20 <sup>(5)</sup>	45,000	46
Sempra Energy		
2.85%, 11/15/20	30,000	30
SES		
3.60%, 4/4/23 <sup>(5)</sup>	30,000	30
Shell International Finance		
3.25%, 5/11/25	180,000	179
Shire Acquisition		
Investments Ireland		
2.40%, 9/23/21	15,000	14
Shire Acquisition		
Investments Ireland		
2.875%, 9/23/23	50,000	47
Shire Acquisition		
Investments Ireland		
3.20%, 9/23/26	65,000	61
Simon Property Group		
2.50%, 9/1/20	75,000	75
Sirius XM Radio		
5.25%, 8/15/22 <sup>(5)</sup>	105,000	109
Southern Company		
2.95%, 7/1/23	80,000	79
Spectra Energy Capital		
3.30%, 3/15/23	50,000	48
Spectra Energy Partners		
3.375%, 10/15/26	15,000	14
Spectra Energy Partners		
4.50%, 3/15/45	10,000	9
Tencent Holdings		
3.80%, 2/11/25	200,000	203
Teva Pharmaceutical		
Finance III		
2.20%, 7/21/21	10,000	10
Teva Pharmaceutical		
Finance III		
2.80%, 7/21/23	45,000	42
Teva Pharmaceutical		
Finance III		
3.15%, 10/1/26	115,000	106
Thomson Reuter		
3.35%, 5/15/26	15,000	15
Time Warner Cable		
6.55%, 5/1/37	40,000	45
Time Warner Cable		
6.75%, 6/15/39	65,000	76
Toronto-Dominion Bank, VR		
3.625%, 9/15/31	15,000	15

	Shares/Par	\$ Value
(Cost and value in \$000s)		
TransCanada Pipelines		
4.875%, 1/15/26	70,000	78
Transurban Finance		
3.375%, 3/22/27 <sup>(5)</sup>	15,000	14
Transurban Finance		
4.125%, 2/2/26 <sup>(5)</sup>	15,000	15
Trinity Acquisition		
3.50%, 9/15/21	15,000	15
UBS Group Funding		
4.125%, 9/24/25 <sup>(5)</sup>	200,000	203
Unum Group		
3.00%, 5/15/21	20,000	20
US Airways PTT		
Series 2012-2A		
4.625%, 12/3/26	168,206	178
US Airways PTT		
Series 2013-1A		
3.95%, 5/15/27	29,367	30
Ventas Realty		
3.25%, 10/15/26	60,000	57
Verizon Communications		
4.272%, 1/15/36	80,000	77
Verizon Communications		
4.862%, 8/21/46	140,000	142
Verizon Communications		
5.15%, 9/15/23	125,000	138
Verizon Communications		
6.40%, 9/15/33	50,000	60
Visa		
4.30%, 12/14/45	115,000	121
WellPoint		
3.50%, 8/15/24	85,000	84
Western Gas Partners		
4.00%, 7/1/22	70,000	71
Williams Partners		
4.50%, 11/15/23	15,000	15
Woodside Finance		
3.65%, 3/5/25 <sup>(5)</sup>	15,000	15
Woodside Finance		
3.70%, 9/15/26 <sup>(5)</sup>	35,000	34
WPP Finance 2010		
3.625%, 9/7/22	40,000	41
WPP Finance 2010		
4.75%, 11/21/21	60,000	65
<b>Total Corporate Bonds</b>		
<b>(Cost \$10,650)</b>		<b>10,692</b>

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>ASSET-BACKED SECURITIES 2.5%</b>		
Ally Auto Receivables Trust Series 2014-3, Class A4 1.72%, 3/16/20	85,000	85
Ally Master Owner Trust Series 2015-3, Class A 1.63%, 5/15/20	100,000	100
AmeriCredit Automobile Receivables Trust Series 2012-5, Class C 1.69%, 11/8/18	5,185	5
AmeriCredit Automobile Receivables Trust Series 2013-5, Class C 2.29%, 11/8/19	65,000	65
AmeriCredit Automobile Receivables Trust Series 2015-3, Class B 2.08%, 9/8/20	30,000	30
AmeriCredit Automobile Receivables Trust Series 2015-4, Class C 2.88%, 7/8/21	15,000	15
AmeriCredit Automobile Receivables Trust Series 2016-1, Class A3 1.81%, 10/8/20	15,000	15
AmeriCredit Automobile Receivables Trust Series 2016-2, Class C 2.87%, 11/8/21	10,000	10
Ascentium Equipment Receivables Series 2015-1A, Class A3 1.61%, 10/13/20 <sup>(5)</sup>	13,926	14
Avis Budget Rental Car Funding, Series 2013-1A Class A, 1.92%, 9/20/19 <sup>(5)</sup>	100,000	100
Avis Budget Rental Car Funding, Series 2013-2A Class A, 2.97%, 2/20/20 <sup>(5)</sup>	100,000	101
Cabela's Credit Card Master Trust, Series 2012-2A Class A1, 1.45%, 6/15/20 <sup>(5)</sup>	100,000	100
Capital Auto Receivables Asset Trust, Series 2014-1 Class C, 2.84%, 4/22/19	10,000	10
Capital Auto Receivables Asset Trust, Series 2014-1 Class D, 3.39%, 7/22/19	40,000	41

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Capital Auto Receivables Asset Trust, Series 2015-3 Class A2, 1.72%, 1/22/19	85,000	85
Capital Auto Receivables Asset Trust, Series 2015-4 Class A4, 2.01%, 7/20/20	10,000	10
CarMax Auto Owner Trust Series 2013-3, Class B 1.91%, 3/15/19	20,000	20
CarMax Auto Owner Trust Series 2014-1, Class B 1.69%, 8/15/19	10,000	10
CarMax Auto Owner Trust Series 2014-1, Class C 1.93%, 11/15/19	15,000	15
CarMax Auto Owner Trust Series 2016-2, Class B 2.16%, 12/15/21	10,000	10
CarMax Auto Owner Trust Series 2016-4, Class A3 1.40%, 8/15/21	65,000	64
CCG Receivables Trust Series 2014-1, Class A2 1.06%, 11/15/21 <sup>(5)</sup>	21,904	22
Chrysler Capital Auto Receivables Trust Series 2016-BA, Class A2 1.36%, 1/15/20 <sup>(5)</sup>	20,000	20
Chrysler Capital Auto Receivables Trust Series 2016-BA, Class A3 1.64%, 7/15/21 <sup>(5)</sup>	20,000	20
CNH Equipment Trust Series 2012-D, Class B 1.27%, 5/15/20	45,000	45
CNH Equipment Trust Series 2016-C, Class A3 1.44%, 12/15/21	15,000	15
DB Master Finance Series 2015-1A, Class A2I 3.262%, 2/20/45 <sup>(5)</sup>	49,125	49
Discover Card Master Trust I Series 2016-A3, Class A3 1.85%, 10/16/23	100,000	98
Dominos Pizza Master Issuer Series 2012-1A, Class A2 5.216%, 1/25/42 <sup>(5)</sup>	55,290	56
Elara HGV Timeshare Issuer Series 2014-A, Class A 2.53%, 2/25/27 <sup>(5)</sup>	42,781	43

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Ford Credit Auto Owner Trust Series 2013-C, Class D 2.50%, 1/15/20	45,000	45
Ford Credit Auto Owner Trust Series 2014-REV1, Class A 2.26%, 11/15/25 <sup>(5)</sup>	200,000	202
Ford Credit Auto Owner Trust Series 2016-A, Class A4 1.60%, 6/15/21	15,000	15
Ford Credit Auto Owner Trust Series 2016-C, Class A4 1.40%, 2/15/22	60,000	59
Ford Credit Floorplan Master Owner Trust Series 2014-4, Class B 1.65%, 8/15/19	15,000	15
Ford Credit Floorplan Master Owner Trust Series 2016-5, Class B 2.16%, 11/15/21	37,000	37
Fosse Master Issuer Series 2012-1A, Class 3A1 CMO, VR 2.382%, 10/18/54 <sup>(5)</sup>	152,649	153
GE Capital Credit Card Master Note Trust, Series 2012-2 Class A, 2.22%, 1/15/22	100,000	101
GM Financial Auto Lease Series 2015-3, Class A 1.81%, 11/20/19	110,000	110
Hilton Grand Vacation Trust Series 2014-AA, Class A 1.77%, 11/25/26 <sup>(5)</sup>	46,545	46
HOA Funding Series 2014-1A, Class A2 4.846%, 8/20/44 <sup>(5)</sup>	47,750	42
Huntington Auto Trust Series 2016-1, Class A3 1.59%, 11/16/20	30,000	30
Huntington Auto Trust Series 2016-1, Class A4 1.93%, 4/15/22	35,000	35
Hyundai Auto Lease Securitization Trust Series 2015-B, Class A4 1.66%, 7/15/19 <sup>(5)</sup>	100,000	100
Hyundai Auto Lease Securitization Trust Series 2016-C, Class A3 1.49%, 2/18/20 <sup>(5)</sup>	100,000	100

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Kubota Credit Owner Trust Series 2016-1A, Class A3 1.50%, 7/15/20 <sup>(5)</sup>	100,000	99
Marriott Vacation Club Owner Trust, Series 2014-1A Class A, 2.25%, 9/22/31 <sup>(5)</sup>	54,812	54
Mercedes-Benz Auto Lease Trust, Series 2016-B Class A3, 1.35%, 8/15/19	25,000	25
MMAF Equipment Finance Series 2014-AA, Class A4 1.59%, 2/8/22 <sup>(5)</sup>	100,000	100
MMAF Equipment Finance Series 2015-AA, Class A4 1.93%, 7/16/21 <sup>(5)</sup>	100,000	100
MMAF Equipment Finance Series 2016-AA, Class A4 1.76%, 1/17/23 <sup>(5)</sup>	100,000	98
Nissan Auto Receivables Owner Trust Series 2015-B, Class A4 1.79%, 1/17/22	40,000	40
Santander Drive Auto Receivables Trust Series 2014-3, Class D 2.65%, 8/17/20	10,000	10
Santander Drive Auto Receivables Trust Series 2015-5, Class D 3.65%, 12/15/21	10,000	10
Sierra Receivables Funding Series 2015-1A, Class A 2.40%, 3/22/32 <sup>(5)</sup>	37,022	37
Sierra Receivables Funding Series 2015-3A, Class A 2.58%, 9/20/32 <sup>(5)</sup>	50,730	51
SLM Student Loan Trust Series 2008-9, Class A, VR 2.382%, 4/25/23	36,114	36
SMART Trust Australia Series 2015-1US, Class A3A 1.50%, 9/14/18	20,683	21
SMART Trust Australia Series 2016-2US, Class A3A 1.71%, 3/15/21	70,000	69
SMB Private Education Loan Trust, Series 2015-B, Class A2A, 2.98%, 7/15/27 <sup>(5)</sup>	100,000	101
SMB Private Education Loan Trust, Series 2015-C, Class A2A, 2.75%, 7/15/27 <sup>(5)</sup>	100,000	100

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
SMB Private Education Loan Trust, Series 2016-B, Class A2A, 2.43%, 2/17/32 (5)	100,000	98
Synchrony Credit Card Master Note Trust, Series 2014-1 Class C, 1.91%, 11/15/20	100,000	100
Synchrony Credit Card Master Note Trust, Series 2015-4 Class B, 2.62%, 9/15/23	25,000	25
Toyota Auto Receivables Owner Trust, Series 2015-C Class C4, 1.69%, 12/15/20	115,000	115
Toyota Auto Receivables Owner Trust, Series 2016-C Class A3, 1.14%, 8/17/20	15,000	15
Volvo Financial Equipment Series 2016-1A, Class A3 1.67%, 2/18/20 (5)	50,000	50
Wendy's Funding Series 2015-1A, Class A2I 3.371%, 6/15/45 (5)	143,188	143
Wheels Series 2015-1A, Class A2 1.27%, 4/22/24 (5)	121,450	121
World Omni Auto Lease Securitization, Series 2014-A Class B, 1.65%, 4/15/20	40,000	40
<b>Total Asset-Backed Securities</b>		<b>4,021</b>
<b>(Cost \$4,036)</b>		

**NON-U.S. GOVERNMENT MORTGAGE-BACKED SECURITIES 1.9%**

Banc of America Commercial Mortgage Series 2006-3, Class AM ARM, 5.87%, 7/10/44	40,000	30
Banc of America Mortgage Securities, Series 2004-D Class 2A2, CMO, ARM 3.257%, 5/25/34	3,438	3
Banc of America Mortgage Securities, Series 2004-H Class 2A2, CMO, ARM 3.19%, 9/25/34	4,045	4
Banc of America Mortgage Securities, Series 2004-I Class 3A2, CMO, ARM 3.264%, 10/25/34	1,243	1

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Banc of America Mortgage Securities, Series 2005-J Class 2A1, CMO, ARM 3.427%, 11/25/35	19,620	18
Banc of America Mortgage Securities, Series 2005-J Class 3A1, CMO, ARM 3.602%, 11/25/35	6,676	6
Bank of America Mortgage Securities, Series 2004-A Class 2A2, CMO, ARM 2.984%, 2/25/34	4,077	4
Chase Funding Mortgage Loan Corp., Series 2002-2 Class 1M1, 5.599%, 9/25/31	251	—
Citigroup Commercial Mortgage Trust Series 2014-GC21, Class AS 4.026%, 5/10/47	35,000	36
Commercial Mortgage PTC Series 2014-CR21, Class A3 3.528%, 12/10/47	75,000	77
Commercial Mortgage PTC Series 2014-UBS6, Class A5 3.644%, 12/10/47	85,000	88
Commercial Mortgage PTC Series 2015-CR24, Class A5 3.696%, 8/10/48	50,000	52
Commercial Mortgage PTC Series 2015-LC21, Class B ARM, 4.312%, 7/10/48	45,000	45
Commercial Mortgage PTC Series 2015-PC1, Class A2 3.148%, 7/10/50	15,000	15
Commercial Mortgage PTC Series 2015-PC1, Class AM ARM, 4.29%, 7/10/50	15,000	16
Commercial Mortgage PTC Series 2015-PC1, Class B ARM, 4.591%, 7/10/50	20,000	20
Commercial Mortgage PTC Series 2016-CR28 Class AHR, 3.651%, 2/10/49	29,961	30
Connecticut Avenue Securities Series 2016-C02, Class 1M1 CMO, ARM 2.906%, 9/25/28	33,149	34
Connecticut Avenue Securities Series 2016-C06, Class 1M1 CMO, ARM 2.056%, 4/25/29	29,716	30

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Countrywide Home Equity Loan Trust, Series 2004-BC1, Class M2 ARM, 2.361%, 1/25/34	3,251	3
Credit Suisse Mortgage Trust Series 2015-GLPB, Class A 3.639%, 11/15/34 <sup>(5)</sup>	205,000	213
CSAIL Commercial Mortgage Trust, Series 2015-C3 Class A4, 3.718%, 8/15/48	25,000	26
CSAIL Commercial Mortgage Trust, Series 2016-C6 Class A5, 3.09%, 1/15/49	50,000	49
FREMF Mortgage Trust Series 2015-K48, Class B ARM, 3.636%, 6/25/25 <sup>(5)</sup>	20,000	19
GMAC Commercial Mortgage Securities Series 2006-C1, Class AM ARM, 5.29%, 11/10/45	15,191	15
Goldman Sachs Mortgage Securities Trust Series 2012-GCJ9, Class A3 2.773%, 11/10/45	35,000	35
Goldman Sachs Mortgage Securities Trust Series 2015-GC34, Class A4 3.506%, 10/10/48	60,000	61
Goldman Sachs Mortgage Securities Trust Series 2016-GS2, Class A4 3.05%, 5/10/49	55,000	54
Greenwich Capital Commercial Funding Series 2007-GG9, Class AM 5.475%, 3/10/39	35,313	35
GSAA Home Equity Trust Series 2005-8, Class A3 ARM, 1.186%, 6/25/35	32,962	31
JPMorgan Barclays Bank Commercial Mortgage Securities, Series 2014-C19 Class AS, ARM 4.243%, 4/15/47	35,000	37
JPMorgan Barclays Bank Commercial Mortgage Securities, Series 2014-C22 Class A4, 3.801%, 9/15/47	35,000	37
JPMorgan Barclays Bank Commercial Mortgage Securities, Series 2015-C28 Class A4, 3.227%, 10/15/48	115,000	116

	Shares/Par	\$ Value
(Cost and value in \$000s)		
JPMorgan Barclays Bank Commercial Mortgage Securities, Series 2015-C30 Class A2, 3.087%, 7/15/48	10,000	10
JPMorgan Barclays Bank Commercial Mortgage Securities, Series 2015-C31 Class A3, 3.801%, 8/15/48	60,000	62
JPMorgan Chase Commercial Mortgage Securities Series 2012-C8, Class A3 2.829%, 10/15/45	50,000	51
JPMorgan Chase Commercial Mortgage Securities Series 2013-LC11, Class A5 2.96%, 4/15/46	30,000	30
JPMorgan Chase Commercial Mortgage Securities Series 2016-ATRM, Class A 2.962%, 10/5/28 <sup>(5)</sup>	100,000	101
JPMorgan Chase Commercial Mortgage Securities Series 2016-JP3, Class A5 2.87%, 8/15/49	55,000	53
JPMorgan Chase Commercial Mortgage Securities Series 2016-JP3, Class B ARM, 3.397%, 8/15/49	20,000	20
JPMorgan Deutsche Bank Commercial Mortgage Securities, Series 2016-C2 Class A4, 3.144%, 6/15/49	25,000	25
Liberty Street Trust Series 2016-225L, Class A 3.597%, 2/10/36 <sup>(5)</sup>	100,000	102
Mill City Mortgage Trust Series 2016-1, Class A, CMO ARM, 2.50%, 4/25/57 <sup>(5)</sup>	93,443	93
Morgan Stanley Bank of America Merrill Lynch Trust Series 2015-C24, Class AS ARM, 4.036%, 5/15/48	10,000	10
Morgan Stanley Bank of America Merrill Lynch Trust Series 2015-C24, Class B ARM, 4.353%, 5/15/48	15,000	15
Morgan Stanley Bank of America Merrill Lynch Trust Series 2015-C24, Class C ARM, 4.353%, 5/15/48	10,000	9

## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Morgan Stanley Bank of America Merrill Lynch Trust Series 2015-C27, Class A4 3.753%, 12/15/47	25,000	26
Morgan Stanley Bank of America Merrill Lynch Trust Series 2016-C29, Class A4 3.325%, 5/15/49	25,000	25
Morgan Stanley Capital I Series 2012-C4, Class A2 2.111%, 3/15/45	32,331	32
Morgan Stanley Capital I Series 2015-MS1, Class AS ARM, 4.03%, 5/15/48	10,000	10
Seasoned Credit Risk Transfer Series 2016-1, Class M1 CMO, ARM 3.00%, 9/25/55 (5)	25,000	23
Structured Agency Credit Risk Debt Notes, Series 2014- HQ3, Class M2, CMO, ARM 3.406%, 10/25/24	125,930	127
Structured Agency Credit Risk Debt Notes, Series 2016- DNA1, Class M2, CMO ARM, 3.656%, 7/25/28	250,000	257
Terwin Mortgage Trust Series 2005-14HE, Class AF2, ARM, 4.849%, 8/25/36	2,557	3
Towd Point Mortgage Trust Series 2015-3, Class A1B CMO, ARM 3.00%, 3/25/54 (5)	65,493	66
Towd Point Mortgage Trust Series 2015-5, Class A1B CMO, ARM 2.75%, 5/25/55 (5)	77,621	78
Towd Point Mortgage Trust Series 2016-1, Class A1B CMO, ARM 2.75%, 2/25/55 (5)	78,757	79
WAMU Mortgage PTC Series 2005-AR12 Class 2A1, CMO, ARM 3.056%, 9/25/35	2,584	3
Wells Fargo Commercial Mortgage Trust Series 2015-C29, Class A4 3.637%, 6/15/48	70,000	72

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Wells Fargo Commercial Mortgage Trust Series 2015-LC20, Class C ARM, 4.056%, 4/15/50	35,000	31
Wells Fargo Commercial Mortgage Trust Series 2015-NXS2, Class C ARM, 4.251%, 7/15/58	10,000	9
Wells Fargo Commercial Mortgage Trust Series 2015-NXS2, Class A2 3.02%, 7/15/58	25,000	26
Wells Fargo Commercial Mortgage Trust Series 2015-NXS2, Class A5 ARM, 3.767%, 7/15/58	50,000	52
Wells Fargo Commercial Mortgage Trust Series 2015-NXS2, Class AS ARM, 4.121%, 7/15/58	10,000	11
Wells Fargo Commercial Mortgage Trust Series 2015-NXS2, Class B ARM, 4.251%, 7/15/58	15,000	15
Wells Fargo Commercial Mortgage Trust Series 2016-C34, Class A4 3.096%, 6/15/49	70,000	69
Wells Fargo Mortgage Backed Securities Trust Series 2003-O, Class 5A1 CMO, ARM 2.896%, 1/25/34	4,460	5
Wells Fargo Mortgage Backed Securities Trust Series 2004-G, Class A3 CMO, ARM 3.008%, 6/25/34	3,416	3
WF-RBS Commercial Mortgage Trust Series 2013-C13, Class A4 3.001%, 5/15/45	60,000	61
WF-RBS Commercial Mortgage Trust Series 2013-C18, Class A3 3.651%, 12/15/46	25,000	26



## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
WF-RBS Commercial Mortgage Trust Series 2014-C20, Class AS 4.176%, 5/15/47	60,000	63
<b>Total Non-U.S. Government Mortgage-Backed Securities (Cost \$3,019)</b>		<b>2,993</b>

**U.S. GOVERNMENT & AGENCY MORTGAGE-BACKED SECURITIES 7.4%**
**U.S. Government Agency Obligations 5.9% (6)**

Federal Home Loan Mortgage		
1.426%, 8/25/17	6,663	7
1.875%, 4/25/22	27,518	27
2.50%, 5/1/28 - 5/1/30	140,087	140
3.00%, 12/1/42 - 7/1/43	370,310	370
3.50%, 8/1/42 - 5/1/46	517,076	532
4.00%, 8/1/40 - 8/1/45	210,217	222
4.50%, 11/1/18 - 10/1/41	218,817	235
5.00%, 10/1/18 - 8/1/40	77,526	84
5.50%, 11/1/18	1,024	1
6.00%, 5/1/17 - 8/1/38	31,895	35
6.50%, 3/1 - 4/1/32	3,675	4
7.00%, 6/1/32	1,326	1
Federal Home Loan Mortgage, ARM		
2.714%, 2/1/37	21,888	23
2.94%, 1/1/37	4,203	5
3.035%, 9/1/32	215	—
Federal Home Loan Mortgage, CMO, VR		
1.154%, 10/15/46	19,748	20
1.204%, 9/15 - 10/15/46	89,204	89
Federal National Mortgage Assn.		
2.50%, 10/1/27 - 6/1/45	636,736	633
3.00%, 6/1/27 - 12/1/46	2,308,956	2,308
3.50%, 5/1/42 - 5/1/46	1,463,210	1,503
4.00%, 1/1/26 - 12/1/45	808,713	853
4.50%, 12/1/20 - 12/1/45	281,115	302
5.00%, 11/1/18 - 11/1/44	371,003	405
5.50%, 1/1/17 - 9/1/41	255,779	286
6.00%, 8/1/21 - 5/1/42	189,655	216
6.50%, 5/1/17 - 5/1/40	79,849	92
7.00%, 4/1/32	752	1
Federal National Mortgage Assn., ARM		
3.021%, 8/1/36	9,741	10
Federal National Mortgage Assn., CMO, VR		
1.206%, 10/25 - 11/25/46	116,277	116
1.256%, 9/25 - 11/25/46	125,336	125

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Federal National Mortgage Assn., CMO, IO 6.50%, 2/25/32	1,444	—
Federal National Mortgage Assn., TBA 3.00%, 1/1/26	135,000	138
3.50%, 1/1/41	725,000	743
		<b>9,526</b>

**U.S. Government Obligations 1.5%**

Government National Mortgage Assn.		
2.50%, 12/20/42 - 3/20/43	296,529	289
3.00%, 9/15/42 - 11/20/46	414,077	420
3.50%, 12/20/42 - 10/20/46	622,588	647
4.00%, 7/20/42 - 5/20/46	425,743	453
4.50%, 10/20/39 - 9/15/45	252,846	273
5.00%, 3/20/34 - 8/20/41	160,271	178
5.50%, 10/20/32 - 6/20/44	72,354	81
6.00%, 2/20/34 - 4/15/36	7,397	9
6.50%, 3/15/26 - 12/20/33	6,319	7
7.00%, 9/20/27	5,943	7
8.00%, 10/15/25 - 4/15/26	1,134	1
Government National Mortgage Assn., CMO, IO 4.50%, 11/20/37-12/20/39	52,532	4
		<b>2,369</b>

**Total U.S. Government & Agency Mortgage-Backed Securities (Cost \$11,969) 11,895**
**U.S. GOVERNMENT AGENCY OBLIGATIONS (EXCLUDING MORTGAGE-BACKED) 4.2%**
**U.S. Treasury Obligations 4.2%**

U.S. Treasury Bonds		
2.50%, 2/15/46	50,000	44
U.S. Treasury Bonds		
2.50%, 5/15/46	90,000	80
U.S. Treasury Bonds		
3.00%, 11/15/44	300,000	296
U.S. Treasury Bonds		
3.00%, 5/15/45	290,000	286
U.S. Treasury Bonds		
3.125%, 2/15/43	485,000	491
U.S. Treasury Bonds		
3.375%, 5/15/44	315,000	334
U.S. Treasury Bonds		
4.625%, 2/15/40	305,000	389

T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
U.S. Treasury		
Inflation-Indexed Notes		
0.125%, 7/15/26	388,242	375
U.S. Treasury		
Inflation-Indexed Notes		
0.625%, 1/15/26	579,855	584
U.S. Treasury Notes		
0.625%, 11/30/17	315,000	314
U.S. Treasury Notes		
0.75%, 4/30/18	460,000	459
U.S. Treasury Notes		
0.875%, 6/15/19	80,000	79
U.S. Treasury Notes		
1.25%, 10/31/18	160,000	160
U.S. Treasury Notes		
1.375%, 5/31/21	290,000	284
U.S. Treasury Notes		
1.50%, 11/30/19	1,005,000	1,007
U.S. Treasury Notes		
1.625%, 8/31/19	50,000	50
U.S. Treasury Notes		
1.625%, 5/15/26	70,000	65
U.S. Treasury Notes		
1.875%, 6/30/20	150,000	151
U.S. Treasury Notes		
2.00%, 8/31/21	750,000	752
U.S. Treasury Notes		
2.75%, 2/15/19 (7)	465,000	480
		<b>6,680</b>
<b>Total U.S. Government Agency Obligations (Excluding Mortgage-Backed) (Cost \$6,636)</b>		<b>6,680</b>

**FOREIGN GOVERNMENT OBLIGATIONS & MUNICIPALITIES 0.4%**

DP World		
6.85%, 7/2/37	100,000	107
Petroleos Mexicanos		
3.50%, 7/23/20	25,000	25
Petroleos Mexicanos		
4.875%, 1/24/22	75,000	75
Petroleos Mexicanos		
5.375%, 3/13/22 (5)	10,000	10
Petroleos Mexicanos		
6.375%, 2/4/21 (5)	15,000	16
Province of Manitoba		
1.30%, 4/3/17	55,000	55
Province of Manitoba		
3.05%, 5/14/24	15,000	15

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Province of Ontario		
2.50%, 9/10/21	120,000	121
Swedish Export Credit		
5.125%, 3/1/17	55,000	55
United Mexican States		
4.00%, 10/2/23	114,000	115
<b>Total Foreign Government Obligations &amp; Municipalities (Cost \$602)</b>		<b>594</b>

**MUNICIPAL SECURITIES 0.7%**

**California 0.2%**

Bay Area Toll Auth.		
Build America		
6.263%, 4/1/49	40,000	54
California, Bid Group		
Series C, 5.00%, 8/1/28	70,000	84
East Bay Municipal Utility		
Dist., Build America		
5.874%, 6/1/40	60,000	76
Los Angeles Airport		
Build America, Series C		
7.053%, 5/15/40	35,000	48
San Diego County Water		
Auth., Build America		
Series B, 6.138%, 5/1/49	25,000	33
		<b>295</b>

**Colorado 0.0%**

Denver School Dist. No. 1		
COP, Series B		
4.242%, 12/15/37	20,000	20
		<b>20</b>

**District of Columbia 0.0%**

District of Columbia		
Build America, Series E		
5.591%, 12/1/34	10,000	12
		<b>12</b>

**Florida 0.0%**

Florida Board of Admin. Fin.		
Corp., Hurricane		
Catastrophe Fund, Series A		
2.995%, 7/1/20	45,000	46
		<b>46</b>



## T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Georgia 0.0%</b>		
Georgia, Series E		
5.00%, 12/1/26	30,000	37
		<b>37</b>
<b>Illinois 0.0%</b>		
Metropolitan Water		
Reclamation Dist. of Greater		
Chicago, Build America		
5.72%, 12/1/38	60,000	72
		<b>72</b>
<b>Maryland 0.1%</b>		
Maryland Transportation		
Auth., Build America		
5.888%, 7/1/43	35,000	43
Maryland Transportation		
Auth., Build America		
Series B, 5.754%, 7/1/41	70,000	85
		<b>128</b>
<b>New York 0.2%</b>		
Metropolitan Transportation		
Auth., Dedicated Tax Fund		
Build America		
7.336%, 11/15/39	10,000	15
New York City, Build America		
Series F1, 6.271%, 12/1/37	50,000	65
New York City, Build America		
Series H-1, 5.846%, 6/1/40	55,000	70
Port Auth. of New York &		
New Jersey, Consolidated		
Bonds, 174 <sup>th</sup> Series		
4.458%, 10/1/62	85,000	85
		<b>235</b>
<b>North Carolina 0.0%</b>		
North Carolina Eastern		
Municipal Power Agency		
1.561%, 7/1/17	15,000	15
North Carolina Eastern		
Municipal Power Agency		
2.003%, 7/1/18	5,000	5
Univ. of North Carolina Board		
of Governors, UNC Chapel		
Hill, 3.847%, 12/1/34	45,000	46
		<b>66</b>

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Ohio 0.0%</b>		
JobsOhio Beverage, Liquid		
Profit, Series B		
4.532%, 1/1/35	25,000	27
		<b>27</b>
<b>Oregon 0.0%</b>		
Oregon, Taxable Pension		
5.892%, 6/1/27	15,000	18
		<b>18</b>
<b>South Carolina 0.0%</b>		
South Carolina Public		
Service Auth., Series E		
4.322%, 12/1/27	35,000	38
		<b>38</b>
<b>Texas 0.0%</b>		
Texas Transportation		
Commission, Build America		
First Tier Series B		
5.178%, 4/1/30	10,000	12
		<b>12</b>
<b>Utah 0.1%</b>		
Utah Transit Auth.		
Build America, Series B		
5.937%, 6/15/39	60,000	77
		<b>77</b>
<b>Virginia 0.1%</b>		
Univ. of Virginia		
Build America		
5.00%, 9/1/40	35,000	41
Virginia Public Building Auth.		
Build America		
5.90%, 8/1/30	50,000	61
Virginia Transportation Board		
Build America		
5.35%, 5/15/35	10,000	12
		<b>114</b>
<b>Total Municipal Securities</b>		
<b>(Cost \$1,083)</b>		<b>1,197</b>

# T. Rowe Price Personal Strategy Balanced Portfolio

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>OPTIONS PURCHASED 0.0% (8)</b>		
U.S. Treasury 10 year futures contract 3/17, Call, 2/24/17 @ \$126.00 (1)	700,000	3
<b>Total Options Purchased (Cost \$2)</b>		<b>3</b>
<b>BOND MUTUAL FUNDS 13.0%</b>		
T. Rowe Price Inflation Protected Bond Fund, (0.01)% (9)(10)	50,450	593
T. Rowe Price Institutional Emerging Markets Bond Fund 6.73% (9)(10)	801,273	7,107
T. Rowe Price Institutional High Yield Fund 5.54% (9)(10)	855,999	7,576
T. Rowe Price Institutional International Bond Fund, 2.06% (9)(10)	662,392	5,412
<b>Total Bond Mutual Funds (Cost \$20,651)</b>		<b>20,688</b>
<b>EQUITY MUTUAL FUNDS 5.0%</b>		
T. Rowe Price Institutional Emerging Markets Equity Fund (10)	189,481	5,478
T. Rowe Price Real Assets Fund (10)	233,854	2,509
<b>Total Equity Mutual Funds (Cost \$6,897)</b>		<b>7,987</b>
<b>SHORT-TERM INVESTMENTS 4.0%</b>		
<b>Other Reserves 4.0%</b>		
T. Rowe Price Treasury Reserve Fund 0.44% (10)(11)	6,359,837	6,360
<b>Total Short-Term Investments (Cost \$6,360)</b>		<b>6,360</b>

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>SECURITIES LENDING COLLATERAL 0.1%</b>		
<b>Investments in a Pooled Account through Securities Lending Program with JPMorgan Chase Bank 0.1%</b>		
<b>Short-Term Funds 0.1%</b>		
T. Rowe Price Short-Term Fund 0.61% (10)(11)	15,571	156
Total Investments through Securities Lending Program with JPMorgan Chase Bank		<b>156</b>
<b>Total Securities Lending Collateral (Cost \$156)</b>		<b>156</b>
<b>Total Investments in Securities</b>		
101.0% of Net Assets (Cost \$130,058)	<b>\$</b>	<b>161,244</b>
‡ Shares/Par are denominated in U.S. dollars unless otherwise noted. (1) Non-income producing (2) All or a portion of this security is on loan at December 31, 2016 -- total value of such securities at period-end amounts to \$147. See Note 4. (3) 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 \$35 and represents 0.0% of net assets. (4) Level 3 in fair value hierarchy. See Note 2. (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 \$5,162 and represents 3.2% of net assets. (6) The issuer currently operates under a federal conservatorship; however, its securities are neither issued nor guaranteed by the U.S. government. (7) At December 31, 2016, all or a portion of this security is pledged as collateral and/or margin deposit to cover future funding obligations. (8) Shares/Par amount represents either the total number of shares or total contract value of the securities underlying the options. See Note 3. (9) SEC 30-day yield (10) Affiliated Company (11) Seven-day yield		

ADR	American Depositary Receipts
ARM	Adjustable Rate Mortgage
AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CHF	Swiss Franc
CMO	Collateralized Mortgage Obligation
COP	Certificate of Participation
DKK	Danish Krone
ETC	Equipment Trust Certificate
EUR	Euro
GBP	British Pound
GDR	Global Depositary Receipts
HKD	Hong Kong Dollar
IO	Interest Only security for which the fund receives interest on notional principal.
JPY	Japanese Yen
KRW	South Korean Won
NOK	Norwegian Krone
PTC	Pass-Through Certificate
PTT	Pass-Through Trust
REIT	A domestic Real Estate Investment Trust whose distributions pass-through with original tax character to the shareholder
SEK	Swedish Krona
SGD	Singapore Dollar
TBA	To Be Announced purchase commitment; TBAs totaled \$881 (0.6% of net assets) at period-end - see Note 4.
TWD	Taiwan Dollar
VR	Variable Rate; rate shown is effective rate at period-end.

T. Rowe Price Personal Strategy Balanced Portfolio

(Amounts in 000s, except market price)

**SWAPS 0.0%**

	Notional Amount	Market Value	Upfront Premiums Paid/(Received)	Unrealized Gain (Loss)
<b>BILATERAL SWAPS 0.0%</b>				
<b>Credit Default Swaps, Protection Sold 0.0%</b>				
Goldman Sachs, Protection Sold				
(Relevant Credit: GE Capital, 5.625%				
9/15/17, \$102.97*), Receive 0.185%				
Pay upon credit default, 6/20/17	120 \$	— \$	0 \$	—
<b>Total Bilateral Credit Default Swaps, Protection Sold</b>			<b>0</b>	<b>—</b>
<b>Total Bilateral Swaps</b>			<b>\$ 0 \$</b>	<b>—</b>

\*Market price at December 31, 2016

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**Futures Contracts**

(\$000s)

	<u>Expiration</u>	<u>Contract Value</u>	<u>Unrealized Gain (Loss)</u>
Short, 2 U.S. Treasury Bonds 30 year contracts	3/17	\$ (301)	\$ 3
Short, 2 U.S. Treasury Notes ten year contracts	3/17	(249)	1
Long, 18 U.S. Treasury Notes two year contracts	3/17	3,900	(4)
Long, 1 Ultra-Long U.S. Treasury Bonds contracts	3/17	160	(2)
Short, 10 Ultra-Long U.S. Treasury Notes ten year contracts	3/17	(1,341)	10
Net payments (receipts) of variation margin to date			.....(14)
Variation margin receivable (payable) on open futures contracts			<u>\$ (6)</u>

**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 which is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Purchase and sales cost and investment income reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Investment Income</b>	<b>Value 12/31/16</b>	<b>Value 12/31/15</b>
T. Rowe Price Inflation Protected Bond Fund	\$ 608	\$ 191	\$ 8	\$ 593	\$ 182
T. Rowe Price Institutional Emerging Markets Bond Fund	732	756	459	7,107	6,618
T. Rowe Price Institutional Emerging Markets Equity Fund	246	2,424	84	5,478	6,765
T. Rowe Price Institutional High Yield Fund	1,432	743	452	7,576	6,213
T. Rowe Price Institutional International Bond Fund	121	1,616	122	5,412	6,582
T. Rowe Price Real Assets Fund	53	2,299	105	2,509	3,863
T. Rowe Price Treasury Reserve Fund	□	□	5	6,360	—
T. Rowe Price Government Reserve Fund +	□	□	15	—	5,150
T. Rowe Price Short-Term Fund #	□	□	— <sup>^</sup>	156	644
<b>Totals</b>			<u>\$ 1,250</u>	<u>\$ 35,191</u>	<u>\$ 36,017</u>

+ At December 31, 2015, the underlying fund's name was T. Rowe Price Reserve Investment Fund.

□ Purchase and sale information not shown for cash management funds.

# At December 31, 2015, the underlying fund's name was T. Rowe Price Short-Term Reserve Fund.

<sup>^</sup> Excludes earnings on securities lending collateral, which are subject to rebates and fees as described in Note 4.

Amounts reflected on the accompanying financial statements include the following amounts related to affiliated companies:

Investment in securities, at cost	<u>\$ 34,064</u>
Dividend income	1,250
Interest income	—
Investment income	<u>\$ 1,250</u>
Realized gain (loss) on securities	<u>\$ (554)</u>
Capital gain distributions from mutual funds	<u>\$ 32</u>

The accompanying notes are an integral part of these financial statements.

## Statement of Assets and Liabilities

T. Rowe Price Personal Strategy Balanced Portfolio

December 31, 2016

(\$000s, except shares and per share amounts)

### Assets

Investments in securities, at value (cost \$130,058)	\$ 161,244
Receivable for investment securities sold	426
Interest and dividends receivable	318
Receivable for shares sold	42
Foreign currency (cost \$32)	33
Cash	27
Other assets	91
Total assets	<u>162,181</u>

### Liabilities

Payable for investment securities purchased	1,163
Payable for shares redeemed	1,010
Investment management and administrative fees payable	182
Obligation to return securities lending collateral	156
Variation margin payable on futures contracts	6
Other liabilities	53
Total liabilities	<u>2,570</u>

### NET ASSETS

**\$ 159,611**

### Net Assets Consist of:

Undistributed net investment income	\$ 82
Accumulated undistributed net realized loss	(1,164)
Net unrealized gain	31,192
Paid-in capital applicable to 8,327,107 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized	<u>129,501</u>

### NET ASSETS

**\$ 159,611**

### NET ASSET VALUE PER SHARE

**\$ 19.17**

The accompanying notes are an integral part of these financial statements.

## Statement of Operations

T. Rowe Price Personal Strategy Balanced Portfolio  
(\$000s)

	Year Ended 12/31/16
<b>Investment Income (Loss)</b>	
Income	
Dividend	\$ 2,760
Interest	1,084
Securities lending	11
Total income	3,855
Expense	
Investment management and administrative expense	1,449
Investment management fees waived	(210)
Total expenses	1,239
Net investment income	2,616
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain (loss)	
Securities	3,578
Capital gain distributions from mutual funds	32
Futures	(112)
Foreign currency transactions	(7)
Net realized gain	3,491
Change in net unrealized gain / loss	
Securities	3,889
Futures	(2)
Change in net unrealized gain / loss	3,887
Net realized and unrealized gain / loss	7,378
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 9,994</b>

The accompanying notes are an integral part of these financial statements.



## Statement of Changes in Net Assets

T. Rowe Price Personal Strategy Balanced Portfolio  
(\$000s)

	Year Ended	
	12/31/16	12/31/15
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment income	\$ 2,616	\$ 2,958
Net realized gain	3,491	10,755
Change in net unrealized gain / loss	3,887	(13,398)
Increase in net assets from operations	9,994	315
Distributions to shareholders		
Net investment income	(2,668)	(3,036)
Net realized gain	(3,588)	(11,788)
Decrease in net assets from distributions	(6,256)	(14,824)
Capital share transactions*		
Shares sold	20,616	24,526
Distributions reinvested	6,257	14,823
Shares redeemed	(34,344)	(49,900)
Decrease in net assets from capital share transactions	(7,471)	(10,551)
<b>Net Assets</b>		
Decrease during period	(3,733)	(25,060)
Beginning of period	163,344	188,404
<b>End of period</b>	<b>\$ 159,611</b>	<b>\$ 163,344</b>
Undistributed net investment income	82	27
*Share information		
Shares sold	1,081	1,180
Distributions reinvested	327	782
Shares redeemed	(1,800)	(2,405)
Decrease in shares outstanding	(392)	(443)

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

T. Rowe Price Personal Strategy Balanced Portfolio  
December 31, 2016

T. Rowe Price Equity Series, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The T. Rowe Price Personal Strategy Balanced Portfolio (the fund) is a diversified, open-end management investment company established by the corporation. The fund seeks the highest total return over time consistent with an emphasis on both capital appreciation and income. 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.

**Investment Transactions, Investment Income, and Distributions** Income and expenses are recorded on the accrual basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Paydown gains and losses are recorded as an adjustment to interest income. Inflation adjustments to the principal amount of inflation-indexed bonds are reflected as interest income. 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. Income tax-related interest and penalties, if incurred, would be recorded as income tax expense. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Distributions from REITs are initially recorded as dividend income and, to the extent such represent a return of capital or capital gain for tax purposes, are reclassified when such information becomes available. Income distributions are declared and paid quarterly. Distributions to shareholders are recorded on the ex-dividend date. Capital gain distributions are generally 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 date of the transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is reflected as a component of security gains and losses.

**Rebates** Subject to best execution, the fund may direct certain security trades to brokers who have agreed to rebate a portion of the related brokerage commission to the fund in cash. Commission rebates are reflected as realized gain on securities in the accompanying financial statements and totaled \$1,000 for the year ended December 31, 2016.

**New Accounting Guidance** In October 2016, the Securities and Exchange Commission (SEC) issued a new rule, *Investment Company Reporting Modernization*, which, among other provisions, amends Regulation S-X to require standardized, enhanced disclosures, particularly related to derivatives, in investment company financial statements. Compliance with the guidance is effective for financial statements filed with the SEC on or after August 1, 2017; adoption will have no effect on the fund's net assets or results of operations.

### 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, in its judgment, materially 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.

Debt securities generally are traded in the OTC market. Securities with remaining maturities of one year or more at the time of acquisition are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service, which considers the yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Debt securities with remaining maturities of less than one year at the time of acquisition generally use amortized cost in local currency to approximate fair value. However, if amortized cost is deemed not to reflect fair value or the fund holds a significant amount of such securities with remaining maturities of more than 60 days, the securities are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service. Generally, debt securities 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. Listed options, and OTC options with a listed equivalent, are valued at the mean of the closing bid and asked prices and generally are categorized in Level 2 of the fair value hierarchy. Exchange-traded options on futures contracts are valued at closing settlement prices and generally are categorized in Level 1 of the fair value hierarchy. Financial futures contracts are valued at closing settlement prices and are categorized in Level 1 of the fair value hierarchy. Swaps are valued at prices furnished by independent swap dealers or by an independent pricing service and generally are categorized in Level 2 of the fair value hierarchy; however, if unobservable inputs are significant to the valuation, the swap would be categorized in Level 3. 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.

## T. Rowe Price Personal Strategy Balanced Portfolio

**Valuation Inputs** The following table summarizes the fund's financial instruments, based on the inputs used to determine their fair values on December 31, 2016:

(\$000s)	Level 1	Level 2	Level 3	Total Value
	Quoted Prices	Significant Observable Inputs	Significant Unobservable Inputs	
<b>Assets</b>				
Investments in Securities, except:	\$ 35,191	\$ —	\$ —	\$ 35,191
Common Stocks	65,963	21,839	2	87,804
Convertible Preferred Stocks	—	154	20	174
Corporate Bonds	—	10,692	—	10,692
Asset-Backed Securities	—	4,021	—	4,021
Non-U.S. Government Mortgage-Backed Securities	—	2,993	—	2,993
U.S. Government & Agency Mortgage-Backed Securities	—	11,895	—	11,895
U.S. Government Agency Obligations (Excluding Mortgage-Backed)	—	6,680	—	6,680
Foreign Government Obligations & Municipalities	—	594	—	594
Municipal Securities	—	1,197	—	1,197
Options Purchased	—	3	—	3
Total	\$ 101,154	\$ 60,068	\$ 22	\$ 161,244
<b>Liabilities</b>				
Futures Contracts	\$ 6	\$ —	\$ —	\$ 6

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2016.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2016. 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, 2016, totaled \$(3,000) for the year ended December 31, 2016. Transfers into and out of Level 3 are reflected at the value of the financial instrument at the beginning of the period. During the year, transfers out of Level 3 were because observable market data became available for the security.

(\$000s)	Beginning Balance 1/1/16	Gain (Loss) During Period	Total Purchases	Transfers Out of Level 3	Ending Balance 12/31/16
Investments in Securities					
Common Stocks	\$ 3	\$ (1)	\$ —	\$ —	\$ 2
Convertible Preferred Stocks	25	(2)	3	(6)	20
Total Level 3	\$ 28	\$ (3)	\$ 3	\$ (6)	\$ 22

**NOTE 3 - DERIVATIVE INSTRUMENTS**

During the year ended December 31, 2016, 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, 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, 2016, the fund held interest rate futures with cumulative unrealized gain of \$14,000 and cumulative unrealized loss of \$6,000; the value reflected on the accompanying Statement of Assets and Liabilities is the related unsettled variation margin.

Additionally, the amount of gains and losses on derivative instruments recognized in fund earnings during the year ended December 31, 2016, 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		
	Securities <sup>^</sup>	Futures	Total
<b>Realized Gain (Loss)</b>			
Interest rate derivatives	\$ 1	\$ (112)	\$ (111)
<b>Change in Unrealized Gain / Loss</b>			
Interest rate derivatives	\$ 1	\$ (2)	\$ (1)

<sup>^</sup>Purchased options are reported as securities.

**Counterparty Risk and Collateral** The fund invests in derivatives in various markets, which expose it to differing levels of counterparty risk. Counterparty risk on exchange-traded and centrally cleared derivative contracts, such as futures, exchange-traded options, and centrally cleared swaps, is minimal because the clearinghouse provides protection against counterparty defaults. For futures and centrally cleared swaps, the fund is required to deposit collateral in an amount specified by the clearinghouse and the clearing firm (margin requirement), and the margin requirement must be maintained over the life of the contract. Each clearinghouse and clearing firm, in its sole discretion, may adjust the margin requirements applicable to the fund.

Derivatives, such as bilateral swaps, forward currency exchange contracts, and OTC options, that are transacted and settle directly with a counterparty (bilateral derivatives) expose the fund to greater 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 provide 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 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 settled. 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 a 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 transferred the next 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. As of December 31, 2016, no collateral was pledged by either the fund or counterparties for bilateral derivatives. As of December 31, 2016, securities valued at \$28,000 had been posted by the fund for exchange-traded and/or centrally cleared derivatives.

**Futures Contracts** The fund is subject to interest rate risk in the normal course of pursuing its investment objectives and uses futures contracts to help manage such risk. The fund may enter into futures contracts to manage exposure to interest rates, security prices, foreign currencies, and credit quality; as an efficient means of adjusting exposure to all or part of a target market; to enhance income; as a cash management tool; or to adjust credit exposure. A futures contract provides for the future sale by one party and purchase by another of a specified amount of a specific underlying financial instrument at an agreed-upon price, date, time, and place. The fund currently invests only in exchange-traded futures, which generally are standardized as to maturity date, underlying financial instrument, and other contract terms. Payments are made or received by the fund each day to settle daily fluctuations in the value of the contract (variation margin), which reflect changes in the value of the underlying financial instrument. Variation margin is recorded as unrealized gain or loss until the contract is closed. The value of a futures contract included in net assets is the amount of unsettled variation margin; net variation margin receivable is reflected as an asset, and net variation margin payable is reflected as a liability on the accompanying Statement of Assets and Liabilities. Risks related to the use of futures contracts include possible illiquidity of the futures markets, contract prices that can be highly volatile and imperfectly correlated to movements in hedged security values and/or interest rates, and potential losses in excess of the fund's initial investment. During the year ended December 31, 2016, the volume of the fund's activity in futures, based on underlying notional amounts, was generally between 0% and 4% of net assets.

**Options** The fund is subject to interest rate 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, purchased options are included in Investments in Securities, and written options 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 on futures give the holder the right, but not the obligation, to purchase or sell, respectively, a position in a particular futures contract 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/or interest rates; and, for



written options, potential losses in excess of the fund's initial investment. During the year ended December 31, 2016, the volume of the fund's activity in options, based on underlying notional amounts, was generally less than 1% of net assets. Transactions in written options and related premiums received during the year ended December 31, 2016, were as follows:

(\$000s)		
	Number of Contracts	Premiums
Outstanding at beginning of period	–	\$ –
Written	2	1
Expired	(2)	(1)
Outstanding at end of period	–	\$ –

**Swaps** The fund is subject to credit risk in the normal course of pursuing its investment objectives and uses swap contracts to help manage such risk. The fund may use swaps in an effort to manage exposure to changes in interest rates, inflation rates, and credit quality; to adjust overall exposure to certain markets; to enhance total return or protect the value of portfolio securities; to serve as a cash management tool; or to adjust credit exposure. Swap agreements can be settled either directly with the counterparty (bilateral swap) or through a central clearinghouse (centrally cleared swap). Fluctuations in the fair value of a contract are reflected in unrealized gain or loss and are reclassified to realized gain or loss upon contract termination or cash settlement. Net periodic receipts or payments required by a contract increase or decrease, respectively, the value of the contract until the contractual payment date, at which time such amounts are reclassified from unrealized to realized gain or loss. For bilateral swaps, cash payments are made or received by the fund on a periodic basis in accordance with contract terms; unrealized gain on contracts and premiums paid are reflected as assets and unrealized loss on contracts and premiums received are reflected as liabilities on the accompanying Statement of Assets and Liabilities. For bilateral swaps, premiums paid or received are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. For centrally cleared swaps, payments are made or received by the fund each day to settle the daily fluctuation in the value of the contract (variation margin). Accordingly, the value of a centrally cleared swap included in net assets is the unsettled variation margin; net variation margin receivable is reflected as an asset and net variation margin payable is reflected as a liability on the accompanying Statement of Assets and Liabilities.

Credit default swaps are agreements where one party (the protection buyer) agrees to make periodic payments to another party (the protection seller) in exchange for protection against specified credit events, such as certain defaults and bankruptcies related to an underlying credit instrument, or issuer or index of such instruments. Upon occurrence of a specified credit event, the protection seller is required to pay the buyer the difference between the notional amount of the swap and the value of the underlying credit, either in the form of a net cash settlement or by paying the gross notional amount and accepting delivery of the relevant underlying credit. For credit default swaps where the underlying credit is an index, a specified credit event may affect all or individual underlying securities included in the index and will be settled based upon the relative weighting of the affected underlying security(ies) within the index. Generally, the payment risk for the seller of protection is inversely related to the current market price or credit rating of the underlying credit or the market value of the contract relative to the notional amount, which are indicators of the markets' valuation of credit quality. As of December 31, 2016, the notional amount of protection sold by the fund totaled \$120,000 (0.1% of net assets), which reflects the maximum potential amount the fund could be required to pay under such contracts. Risks related to the use of credit default swaps include the possible inability of the fund to accurately assess the current and future creditworthiness of underlying issuers, the possible failure of a counterparty to perform in accordance with the terms of the swap agreements, potential government regulation that could adversely affect the fund's swap investments, and potential losses in excess of the fund's initial investment.

During the year ended December 31, 2016, the volume of the fund's activity in swaps, 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 and Frontier 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 and frontier market countries; at period-end, approximately 9% of the fund's net assets were invested in emerging markets and 2% in frontier markets. Emerging markets, and to a greater extent frontier 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. Investing in frontier markets is significantly riskier than investing in other countries, including emerging markets.

**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.

**TBA Purchase and Sale Commitments** The fund may enter into to-be-announced (TBA) purchase or sale commitments (collectively, TBA transactions), pursuant to which it agrees to purchase or sell, respectively, mortgage-backed securities for a fixed unit price, with payment and delivery at a scheduled future date beyond the customary settlement period for such securities. With TBA transactions, the particular securities to be received or delivered by the fund are not identified at the trade date; however, the securities must meet specified terms, including issuer, rate, and mortgage term, and be within industry-accepted "good delivery" standards. The fund may enter into TBA transactions with the intention of taking possession of or relinquishing the underlying securities, may elect to extend the settlement by "rolling" the transaction, and/or may use TBA transactions to gain or reduce interim exposure to underlying securities. Until settlement, the fund maintains liquid assets sufficient to settle its TBA commitments.

To mitigate counterparty risk, the fund has entered into agreements with TBA counterparties that provide for collateral and the right to offset amounts due to or from those counterparties under specified conditions. Subject to minimum transfer amounts, collateral requirements are determined and transfers made based on the net aggregate unrealized gain or loss on all TBA commitments with a particular counterparty. At any time, the fund's risk of loss from a particular counterparty related to its TBA commitments is the aggregate unrealized gain on appreciated TBAs in excess of unrealized loss on depreciated TBAs and collateral received, if any, from such counterparty. As of December 31, 2016, no collateral was pledged by the fund or counterparties for TBAs.

**Securities Lending** The fund may lend its securities to approved brokers 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, valued at 102% to 105% of the value of the securities on loan. 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 by the lending agent(s) 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, 2016, the value of loaned securities was \$147,000; the value of cash collateral and related investments was \$156,000.

**Mortgage-Backed Securities** The fund may invest in mortgage-backed securities (MBS or pass-through certificates) that represent an interest in a pool of specific underlying mortgage loans and entitle the fund to the periodic payments of principal and interest from those mortgages. MBS may be issued by government agencies or corporations, or private issuers. Most MBS issued by government agencies are guaranteed; however, the degree of protection differs based on the issuer. The fund also may invest in stripped MBS, created when a traditional MBS is split into an interest-only (IO) and a principal-only (PO) strip. MBS, including IOs and POs, are sensitive to changes in economic conditions that affect the rate of prepayments and defaults on the underlying mortgages; accordingly, the value, income, and related cash flows from MBS may be more volatile than other debt instruments. IOs also risk loss of invested principal from faster-than-anticipated prepayments.

**Other** Purchases and sales of portfolio securities other than short-term and U.S. government securities aggregated \$62,558,000 and \$74,628,000, respectively, for the year ended December 31, 2016. Purchases and sales of U.S. government securities aggregated \$55,478,000 and \$54,971,000, respectively, for the year ended December 31, 2016.

## 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.

Reclassifications between income and gain relate primarily to the character of paydown gains and losses on asset-backed securities. For the year ended December 31, 2016, the following reclassifications were recorded to reflect tax character (there was no impact on results of operations or net assets):

(\$000s)

Undistributed net investment income	\$	107
Undistributed net realized gain		(107)

Distributions during the years ended December 31, 2016 and December 31, 2015, were characterized for tax purposes as follows:

(\$000s)

	December 31	
	2016	2015
Ordinary income	\$ 2,668	\$ 3,520
Long-term capital gain	3,588	11,304
Total distributions	\$ 6,256	\$ 14,824

## T. Rowe Price Personal Strategy Balanced Portfolio

At December 31, 2016, the tax-basis cost of investments and components of net assets were as follows:

(\$000s)	
Cost of investments	\$ 131,971
Unrealized appreciation	\$ 33,358
Unrealized depreciation	(4,088)
Net unrealized appreciation (depreciation)	29,270
Undistributed ordinary income	149
Undistributed long-term capital gain	691
Paid-in capital	129,501
Net assets	\$ 159,611

The difference between book-basis and tax-basis net unrealized appreciation (depreciation) is attributable to the deferral of losses from wash sales and certain derivative contracts for tax purposes. The fund intends to retain realized gains to the extent of available capital loss carryforwards. Because the fund is required to use capital loss carryforwards that do not expire before those with expiration dates, all or a portion of its capital loss carryforwards subject to expiration could ultimately go unused. During the year ended December 31, 2016, the fund utilized \$58,000 of capital loss carryforwards.

### NOTE 6 - 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). The investment management and administrative agreement between the fund and Price Associates provides for an all-inclusive annual fee equal to 0.90% 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.

The fund may invest in the T. Rowe Price Government Reserve Fund, the T. Rowe Price Treasury Reserve Fund, or the T. Rowe Price Short-Term Fund (collectively, the Price Reserve Funds), open-end management investment companies managed by Price Associates and considered affiliates of the fund. 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. The Price Reserve Funds pay no investment management fees.

## T. Rowe Price Personal Strategy Balanced Portfolio

The fund may also invest in certain other T. Rowe Price funds (Price Funds) as a means of gaining efficient and cost-effective exposure to certain markets. The fund does not invest for the purpose of exercising management or control; however, investments by the fund may represent a significant portion of an underlying Price Fund's net assets. Each underlying Price Fund is an open-end management investment company managed by Price Associates and is considered an affiliate of the fund. To ensure that the fund does not incur duplicate management fees (paid by the underlying Price Fund(s) and the fund), Price Associates has agreed to permanently waive a portion of its management fee charged to the fund in an amount sufficient to fully offset that portion of management fees paid by each underlying Price Fund related to the fund's investment therein. Annual management fee rates and amounts waived related to investments in the underlying Price Fund(s) for the year ended December 31, 2016, are as follows:

(\$000s)	Effective Management Fee Rate	Management Fee Waived
T. Rowe Price Inflation Protected Bond Fund	0.34%	\$ 1
T. Rowe Price Institutional Emerging Markets Bond Fund	0.70%	47
T. Rowe Price Institutional Emerging Markets Equity Fund	1.10%	72
T. Rowe Price Institutional High Yield Fund	0.50%	34
T. Rowe Price Institutional International Bond Fund	0.55%	35
T. Rowe Price Real Assets Fund	0.64%	21
Total		\$ 210

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, 2016, 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, 2016.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors of T. Rowe Price Equity Series, Inc. and Shareholders of T. Rowe Price Personal Strategy Balanced Portfolio**

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of T. Rowe Price Personal Strategy Balanced Portfolio (one of the portfolios constituting T. Rowe Price Equity Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2016, the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian and brokers, and confirmation of the underlying funds by correspondence with the transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 8, 2017

### **Tax Information (Unaudited) for the Tax Year Ended 12/31/16**

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 \$3,588,000 from long-term capital gains, subject to a long-term capital gains tax rate of not greater than 20%.

For taxable non-corporate shareholders, \$1,676,000 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, \$849,000 of the fund's income qualifies for the dividends-received deduction.

### **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**

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's website (sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 100 F St. N.E., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

## 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 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

<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>
William R. Brody, M.D., Ph.D. (1944) 2009 [187]	President and Trustee, Salk Institute for Biological Studies (2009 to present); Director, BioMed Realty Trust (2013 to 2016); Chairman of the Board, Mesa Biotech, a molecular diagnostic company (March 2016 to present); Director, Radiology Partners, an integrated radiology practice management company (June 2016 to present); Director, Novartis, Inc. (2009 to 2014); Director, IBM (2007 to present)
Anthony W. Deering (1945) 2001 [187]	Chairman, Exeter Capital, LLC, a private investment firm (2004 to present); Director, Brixmor Real Estate Investment Trust (2012 to present); Director and Advisory Board Member, Deutsche Bank North America (2004 to present); Director, Under Armour (2008 to present); Director, Vornado Real Estate Investment Trust (2004 to 2012)
Bruce W. Duncan (1951) 2013 [187]	Chief Executive Officer and Director (2009 to present), Chairman of the Board (January 2016 to present), and President (2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to May 2016) and Director (1999 to May 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [187]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present)
Paul F. McBride (1956) 2013 [187]	Advisory Board Member, Vizzia Technologies (2015 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [187]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Member of National Academy of Education (2010 to present); Research Associate of Labor Program (2011 to present) and Board Member (2015 to present), National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession (2012 to present) and Vice President (2015 to present), American Economic Association
John G. Schreiber (1946) 2001 [187]	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)
Mark R. Tercek (1957) 2009 [187]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

\*Each independent director serves until retirement, resignation, or election of a successor.

**Inside Directors**

**Name (Year of Birth)**  
**Year Elected\* [Number of**  
**T. Rowe Price Portfolios**  
**Overseen]**

**Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies**  
**During the Past Five Years**

Edward C. Bernard (1956) 2006 [187]	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 President, T. Rowe Price Investment Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price 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
Brian C. Rogers, CFA, CIC (1955) 2013 [131]	Chief Investment Officer, Director, and Vice President, T. Rowe Price; Chairman of the Board, Chief Investment Officer, Director, and Vice President, T. Rowe Price Group, Inc.; Vice President, T. Rowe Price Trust Company; Director, United Technologies (January 2016 to present); President, Equity Series

\*Each inside director serves until retirement, resignation, or election of a successor.

**Officers**

**Name (Year of Birth)**  
**Position Held With Equity Series**

**Principal Occupation(s)**

Ziad Bakri, M.D., CFA (1980) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Brian W.H. Berghuis, CFA (1958) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
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.
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.
Ian D. Kelson (1956) Vice President	Director and Vice President, T. Rowe Price International; Vice President, 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
John D. Linehan, CFA (1965) Executive 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
David Oestreicher (1967) Vice President	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; Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Vice President and Secretary, T. Rowe Price and T. Rowe Price International; Vice President, Price Hong Kong and Price Singapore
Larry J. Puglia, CFA, CPA (1960) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
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)

Unless otherwise noted, officers have been employees of T. Rowe Price or T. Rowe Price International for at least 5 years.



**Officers (continued)**

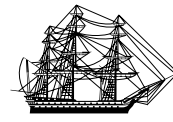
<b>Name (Year of Birth)</b> <b>Position Held With Equity Series</b>	<b>Principal Occupation(s)</b>
Shannon H. Rauser (1987) Assistant Secretary	Employee, T. Rowe Price
Deborah D. Seidel (1962) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.
Charles M. Shriver, CFA (1967) Executive Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price International, and T. Rowe Price Trust Company
Ken D. Uematsu, CFA (1969) Executive Vice President	Vice President, T. Rowe Price and T. Rowe Price Trust Company
John F. Wakeman (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Justin P. White (1981) Executive Vice President	Vice President, T. Rowe Price and 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.

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100 East Pratt Street  
Baltimore, MD 21202



**Vanguard®**



**Annual Report** | December 31, 2016

# Vanguard Variable Insurance Fund

Balanced Portfolio

# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

- Goals.** Create clear, appropriate investment goals.
- Balance.** Develop a suitable asset allocation using broadly diversified funds.
- Cost.** Minimize cost.
- Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

## Contents

A Message from Vanguard’s Chairman	1
Market Perspective	2
Balanced Portfolio	3

Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

**Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.**

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### **Expect stabilization, not stagnation**

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### **Focus on keys to investment success**

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017

## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® Balanced Portfolio

## Advisor's Report

Vanguard Balanced Portfolio returned 11.01% net of fees and expenses for the 12 months ended December 31, 2016. The portfolio outperformed the 9.22% return of its blended benchmark (a mix of 65% large-capitalization stocks and 35% high-quality corporate bonds) and the 6.81% average return of peer funds. Both the stock and bond portions of the portfolio outperformed their respective benchmarks, the Standard & Poor's 500 Index and the Bloomberg Barclays U.S. Credit A or Better Bond Index.

Please note that the returns for Vanguard Variable Insurance Fund are different from those of Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

### The investment environment

Stock markets in the United States posted strong double-digit returns for the year, notwithstanding significant volatility. The S&P 500 Index returned 11.96%, the MSCI World Index returned 8.15%, and the MSCI EAFE Index returned 1.00%. In the United States, large-capitalization value

stocks generally outperformed large-cap growth stocks, as measured by the Russell 1000 Value Index (+17.34%) and Russell 1000 Growth Index (+7.08%).

Early in the first quarter of 2016, stocks plunged and moved in virtual lockstep with the price of oil as fears of a recession and weakness in China weighed on investors' minds. However, equities surged in late February and March as solid economic data, a stabilization in oil prices, and accommodative commentary from the U.S. Federal Reserve worked to calm the market's jitters. A better-than-expected U.S. corporate earnings season in the second quarter and an encouraging economic backdrop helped sustain the rally. At its June meeting, the Fed left rates unchanged and reduced its growth and long-run policy rate forecasts, citing mixed U.S. economic data and uncertainty about global economic and financial developments.

After plunging in the two trading days following the United Kingdom's June 23 Brexit vote, U.S. stocks staged an impressive comeback. A confluence of

worries contributed to increased volatility during September, including uncertainty surrounding the U.S. presidential election, tepid economic data, and valuation concerns. Stocks rose after Donald Trump's win, on hopes of increased fiscal stimulus, reduced regulatory restrictions, and lower corporate taxes. In December, the Fed raised rates by 0.25%, a well-telegraphed move and only the second hike in the last decade.

The U.S. fixed income market rose during the year, with the Bloomberg Barclays U.S. Aggregate Bond Index returning 2.65%. The higher-quality credit market performed even better, with the Bloomberg Barclays U.S. Credit A or Better Bond Index returning 3.94%. The yield on the 10-year U.S. Treasury note fell then rose, starting 2016 at 2.24% and ending at 2.45%.

### Our successes

The equity portfolio's outperformance was driven by positive stock selection and sector allocation. Stock selection was strongest in the industrial, energy, and health care sectors. Overweight allocations to financials and energy also aided relative results. Financials did well as investor sentiment improved based on expectations for a more business-friendly regulatory environment and higher interest rates. Positions in Chevron, JP Morgan Chase, Bank of America, and Comcast contributed most to the portfolio's absolute returns; an allocation to Prudential Financial was also a top contributor when looking at benchmark-relative results.

Chevron shares outperformed as energy prices recovered over the course of the year. The energy sector, and Chevron stock in particular, fit our capital cycle framework as supply was contracting because of weak sector returns when we established our overweight exposure. The company had a strong balance sheet and

### Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016 Average Annual Return
Vanguard Balanced Portfolio	11.01%	6.93%
Composite Stock/Bond Index <sup>1</sup>	9.22	6.47
Variable Insurance Mixed-Asset Target Growth Funds Average <sup>2</sup>	6.81	4.59

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>3</sup>	Variable Insurance Mixed-Asset Target Growth Funds Average <sup>4</sup>
Balanced Portfolio	0.23%	0.60%

<sup>1</sup> Weighted 65% S&P 500 Index and 35% Bloomberg Barclays U.S. Credit A or Better Bond Index.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>3</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the Balanced Portfolio's expense ratio was 0.23%.

<sup>4</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.



attractive downside protection; in recent years, it has invested in projects that we believe will strongly generate cash flow with higher oil prices. We continue to own the name.

Bank of America performed well. It has invested heavily in IT improvements, made adjustments to its business model, and impressed investors with solid results. The company has streamlined operations and right-sized the business so that interest rate increases should provide optionality. Even without rate increases, we expect the bank's earnings will continue to improve; thus, we remain invested.

The fixed income portfolio's outperformance was led by strong selection in investment-grade corporate credit, primarily among industrial issuers. Our underweight to noncorporate credit, particularly supranationals, added to results. Our out-of-benchmark allocation to asset-backed securities also helped, as did our duration/yield curve positioning.

### Our shortfalls

In the equity portfolio, weak selection in consumer staples, financials, and information technology detracted from relative results. Our overweight to health care, the sector with the second-worst performance in the S&P 500 Index, also detracted from relative performance.

AstraZeneca, Citigroup, Cardinal Health, and Bristol-Myers Squibb hurt absolute results most.

Although our selection in health care contributed to relative performance overall, one of the holdings, AstraZeneca, was the portfolio's top detractor. The U.K.-based global pharmaceutical company underperformed following news that a competitor's Alzheimer's drug trial would be halted. In addition, the company's drug trials for head and neck cancers were temporarily put on hold. The company has said that no other immuno-oncology combination trials are affected and that it has made progress in other areas. We remain invested based on a view that the company's treatments are innovative and that share-price weakness is transitory.

On the fixed income side, an underweight to basic industry within investment-grade credit detracted. Our out-of-benchmark allocation to collateralized mortgage obligations also modestly detracted. Credit spreads tightened, which led to positive excess returns, and resulted in our underweight detracting from results.

### Portfolio positioning

In the equity portfolio, our largest sector overweight allocations at the end of the period were to financials, energy, and health care. Our largest underweights were in information technology and consumer discretionary. Our sector positioning is a result of our bottom-up stock selection process, and it did not change dramatically during the year. We trimmed our overweight to health care based on valuation and increased our underweights to consumer staples and information technology in response to price appreciation in those sectors.

We increased our exposure to materials and are modestly overweight where we had been underweight at the start of the period. This positioning shift was based on weakness in the sector. Our overweight position in financials increased, particularly because of the reclassification of real estate as its own sector. We maintain an underweight allocation to real estate, and this caused an increase in our relative exposure to financials. In financials, we remain most overweighted in banks and insurance.

We remain most underweighted in the information technology and consumer discretionary sectors, based on where we are finding opportunities that fit our investment approach. Valuations appear stretched for many of these companies, dividends tend to be below the market average, and we find that other sectors tend to offer stronger and more stable earnings stories relative to expectations.

We are encouraged by improved performance based on what we see as a renewed focus on fundamentals and the rotation from low-volatility "safety" stocks to sectors that have been more attractive in our investment framework, particularly

following the presidential election. We continue to seek investment ideas that fit with our process and philosophy. We remain focused on the significance of dividends, positive capital stewardship, and franchise value. We believe we have a solid portfolio of undervalued market leaders, stocks in industries with improving supply-and-demand trends, and solid companies that are temporarily out of favor.

On the fixed income side, the markets are convinced that the incoming administration is pro-economic growth, pro-inflation, and pro-cyclically higher interest rates, and we agree. The U.S. economic news and inflationary lead indicators were starting to turn up before the election, and the prospects of expanded fiscal policies, reduced regulations, and inflationary trade practices add fuel. We now believe interest rate shifts, rather than credit risk, are the main challenge to fixed income markets. Much of that move has already taken place.

We anticipate increased volatility because of the election outcome, as much uncertainty remains and the predictability of the new administration is low, offering opportunities for surprise. In this market context, we are focused on identifying solid company-specific investment catalysts and mispriced individual securities, rather than investing based on broad themes. We remain disciplined in our application of our investment process, which enables us to create a balanced portfolio that we believe should perform well in a variety of environments. We continue to focus on long-term, low-turnover investing—features that we believe have served the fund's shareholders well over time.

Edward P. Bousa, CFA,  
Senior Managing Director and  
Equity Portfolio Manager

John C. Keogh,  
Senior Managing Director and  
Fixed Income Portfolio Manager

Wellington Management Company LLP

January 12, 2017

## Portfolio Profile

As of December 31, 2016

### Total Portfolio Characteristics

Yield <sup>1</sup>	2.38%
Turnover Rate	33%
Expense Ratio <sup>2</sup>	0.23%
Short-Term Reserves	2.3%

### Total Portfolio Volatility Measures<sup>3</sup>

	Portfolio Versus Composite Index <sup>4</sup>	Portfolio Versus Broad Index <sup>5</sup>
R-Squared	0.97	0.94
Beta	0.99	0.63

### Equity Characteristics

	Portfolio	Comparative Index <sup>6</sup>	Broad Index <sup>5</sup>
Number of Stocks	98	505	3,833
Median Market Cap	\$89.4B	\$84.8B	\$54.2B
Price/Earnings Ratio	20.9x	23.0x	24.4x
Price/Book Ratio	2.3x	2.9x	2.8x
Dividend Yield	2.6%	2.1%	2.0%
Return on Equity	16.6%	17.4%	16.5%
Earnings Growth Rate	3.7%	8.1%	8.2%
Foreign Holdings	9.5%	0.0%	0.0%

### Fixed Income Characteristics

	Portfolio	Comparative Index <sup>7</sup>	Broad Index <sup>8</sup>
Number of Bonds	775	3,516	10,054
Yield to Maturity	2.9% <sup>9</sup>	2.9%	2.6%
Average Coupon	3.5%	3.5%	3.1%
Average Effective Maturity	6.6 years	6.9 years	5.9 years
Average Duration	9.6 years	9.8 years	8.1 years

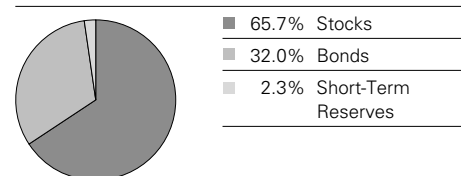
### Ten Largest Stocks<sup>10</sup> (% of equity portfolio)

Microsoft Corp.	Systems Software	3.2%
JPMorgan Chase & Co.	Diversified Banks	3.0
Chevron Corp.	Integrated Oil & Gas	2.9
Intel Corp.	Semiconductors	2.6
Wells Fargo & Co.	Diversified Banks	2.6
Alphabet Inc. Class A	Internet Software & Services	2.6
Bank of America Corp.	Diversified Banks	2.6
Comcast Corp. Class A	Cable & Satellite	2.5
Merck & Co. Inc.	Pharmaceuticals	2.3
Chubb Ltd.	Property & Casualty Insurance	2.2
Top Ten		26.5%
Top Ten as % of Total Net Assets		17.4%

### Sector Diversification (% of equity portfolio)

	Portfolio	Comparative Index <sup>6</sup>	Broad Index <sup>5</sup>
Consumer Discretionary	6.8%	12.0%	12.5%
Consumer Staples	7.7	9.4	8.3
Energy	10.9	7.5	7.0
Financials	24.8	14.8	15.4
Health Care	15.2	13.6	13.0
Industrials	11.1	10.3	10.8
Information Technology	13.4	20.8	20.0
Materials	3.2	2.8	3.3
Real Estate	1.0	2.9	4.1
Telecommunication Services	2.1	2.7	2.4
Utilities	3.8	3.2	3.2

### Portfolio Asset Allocation



<sup>1</sup> 30-day SEC yield for the portfolio. See definition on the next page.

<sup>2</sup> The expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the Balanced Portfolio's expense ratio was 0.23%.

<sup>3</sup> For an explanation of R-squared, beta, and other terms used here, see definitions on the next page.

<sup>4</sup> Composite Stock/Bond Index, weighted 65% S&P 500 Index and 35% Bloomberg Barclays U.S. Credit A or Better Bond Index.

<sup>5</sup> Dow Jones U.S. Total Stock Market Float Adjusted Index.

<sup>6</sup> S&P 500 Index.

<sup>7</sup> Bloomberg Barclays U.S. Credit A or Better Bond Index.

<sup>8</sup> Bloomberg Barclays U.S. Aggregate Bond Index.

<sup>9</sup> Before expenses.

<sup>10</sup> The holdings listed exclude any temporary cash investments and equity index products.

**Distribution by Credit Quality<sup>1</sup>**  
(% of fixed income portfolio)

U.S. Government	18.1%
Aaa	4.4
Aa	15.4
A	42.8
Baa	17.8
Cash	1.5

**Sector Diversification<sup>2</sup>**  
(% of fixed income portfolio)

Asset-Backed	3.1%
Finance	26.9
Foreign	5.6
Government Mortgage-Backed	0.2
Industrial	34.5
Treasury	17.6
Utilities	6.6
Other	5.5

**Equity Investment Focus**

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

**Fixed Income Investment Focus**

Average Maturity		Short	Med.	Long
Credit Quality	Treasury/ Agency			
	Investment-Grade Corporate			
	Below Investment-Grade			

**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Credit Quality.** Credit-quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). U.S. Treasury, U.S. Agency, and U.S. Agency mortgage-backed securities appear under "U.S. Government." Credit-quality ratings are obtained from Barclays and are from Moody's, Fitch, and S&P. When ratings from all three agencies are used, the median rating is shown. When ratings from two of the agencies are used, the lower rating for each issue is shown. "Not Rated" is used to classify securities for which a rating is not available. Not rated securities include a fund's investment in Vanguard Market Liquidity Fund or Vanguard Municipal Cash Management Fund, each of which invests in high-quality money market instruments and may serve as a cash management vehicle for the Vanguard funds, trusts, and accounts.

**Equity Exposure.** A measure that reflects a portfolio's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> Source: Moody's Investors Service.

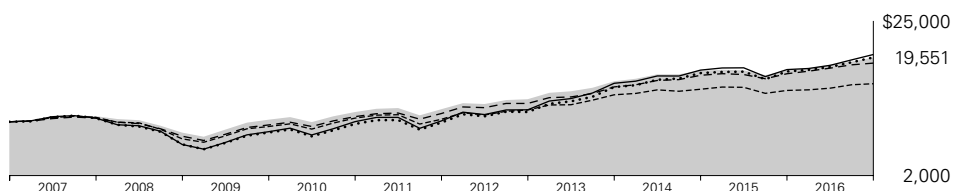
<sup>2</sup> The agency and mortgage-backed securities sectors may include issues from government-sponsored enterprises; such issues are not backed by the full faith and credit of the U.S. government.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

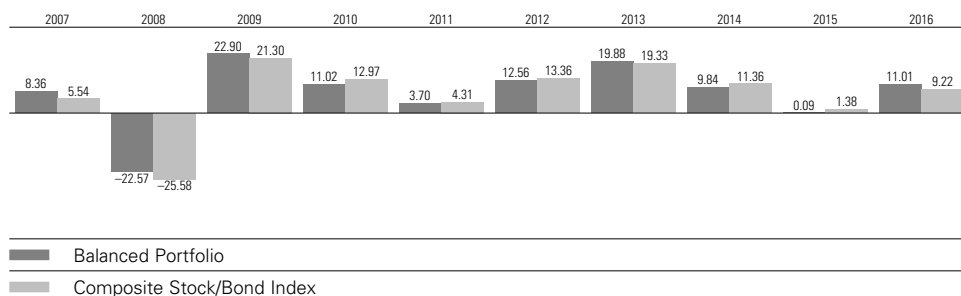
### Cumulative Performance: December 31, 2006–December 31, 2016

Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Balanced Portfolio	11.01 %	10.49%	6.93%	\$19,551
S&P 500 Index	11.96	14.66	6.95	19,572
Composite Stock/Bond Index <sup>1</sup>	9.22	10.77	6.47	18,724
Variable Insurance Mixed-Asset Target Growth Funds Average <sup>2</sup>	6.81	8.60	4.59	15,659
Dow Jones U.S. Total Stock Market Float Adjusted Index	12.62	14.59	7.18	20,003

### Fiscal-Year Total Returns (%): December 31, 2006–December 31, 2016



<sup>1</sup> Weighted 65% S&P 500 Index and 35% Bloomberg Barclays U.S. Credit A or Better Bond Index.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

See Financial Highlights for dividend and capital gains information.

## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (65.3%)</b>								
<b>Consumer Discretionary (4.5%)</b>						<b>Information Technology (8.7%)</b>		
Comcast Corp. Class A	594,569	41,055	Northern Trust Corp.	174,320	15,523	Microsoft Corp.	856,374	53,215
Ford Motor Co.	1,474,530	17,886	Mitsubishi UFJ Financial Group Inc.	2,409,130	14,858	Intel Corp.	1,203,990	43,669
Lowe's Cos. Inc.	212,770	15,132	Synchrony Financial	403,480	14,634	* Alphabet Inc. Class A	54,150	42,911
Twenty-First Century Fox Inc. Class A	506,134	14,192	Goldman Sachs Group Inc.	58,100	13,912	Apple Inc.	294,062	34,058
Hilton Worldwide Holdings Inc.	464,366	12,631	MetLife Inc.	249,873	13,466	Accenture plc Class A	161,060	18,865
L Brands Inc.	112,620	7,415	Bank of Nova Scotia	194,010	10,803	Cisco Systems Inc.	605,036	18,284
Bayerische Motoren Werke AG	60,433	5,628	US Bancorp	207,250	10,646	Texas Instruments Inc.	113,690	8,296
		<b>113,939</b>	Intercontinental Exchange Inc.	179,350	10,119	eBay Inc.	116,230	3,451
			BNP Paribas SA	141,838	9,026			<b>222,749</b>
<b>Consumer Staples (5.0%)</b>			Hartford Financial Services Group Inc.	179,250	8,541	<b>Materials (2.1%)</b>		
Mondelez International Inc. Class A	400,670	17,762	Zurich Insurance Group AG	18,060	4,963	Dow Chemical Co.	312,370	17,874
PepsiCo Inc.	169,750	17,761	Citigroup Inc.	73,190	4,350	International Paper Co.	269,410	14,295
Walgreens Boots Alliance Inc.	201,340	16,663	UBS Group AG	270,203	4,234	BHP Billiton plc	508,588	8,098
CVS Health Corp.	209,550	16,536	American International Group Inc.	62,730	4,097	Monsanto Co.	61,780	6,500
Philip Morris International Inc.	157,930	14,449	Tokio Marine Holdings Inc.	91,200	3,734	Linde AG	38,437	6,305
Diageo plc	500,633	12,991			<b>415,641</b>			<b>53,072</b>
Costco Wholesale Corp.	74,260	11,890	<b>Health Care (9.9%)</b>			<b>Real Estate (0.7%)</b>		
Unilever NV	264,532	10,867	Merck & Co. Inc.	642,019	37,796	American Tower Corporation	132,722	14,026
Coca-Cola Co.	162,940	6,755	Bristol-Myers Squibb Co.	578,580	33,812	AvalonBay Communities Inc.	15,670	2,776
British American Tobacco plc	55,457	3,143	Johnson & Johnson	223,500	25,749			<b>16,802</b>
		<b>128,817</b>	^ AstraZeneca plc ADR	871,288	23,804	<b>Telecommunication Services (1.3%)</b>		
<b>Energy (7.1%)</b>			Medtronic plc	322,790	22,992	Verizon Communications Inc.	640,280	34,178
Chevron Corp.	413,500	48,669	UnitedHealth Group Inc.	119,915	19,191	<b>Utilities (2.5%)</b>		
Exxon Mobil Corp.	282,487	25,497	Pfizer Inc.	567,663	18,438	NextEra Energy Inc.	231,910	27,704
TOTAL SA	471,804	24,200	Eli Lilly & Co.	222,555	16,369	Dominion Resources Inc.	284,710	21,806
Royal Dutch Shell plc Class B	680,292	19,546	Cardinal Health Inc.	224,790	16,178	Exelon Corp.	400,160	14,202
Anadarko Petroleum Corp.	207,350	14,459	Novartis AG	209,658	15,247			<b>63,712</b>
Suncor Energy Inc.	368,900	12,062	* HCA Holdings Inc.	107,870	7,985	<b>Total Common Stocks (Cost \$1,252,284)</b>		
Hess Corp.	166,560	10,375	McKesson Corp.	41,130	5,777			<b>1,667,879</b>
EOG Resources Inc.	69,262	7,002	Roche Holding AG	21,923	4,997			
Halliburton Co.	102,770	5,559	* Regeneron Pharmaceuticals Inc.	12,190	4,475			
Eni SPA	321,085	5,205			<b>252,810</b>			
Valero Energy Corp.	75,750	5,175	<b>Industrials (7.2%)</b>					
Marathon Petroleum Corp.	68,835	3,466	United Parcel Service Inc. Class B	271,638	31,141			
		<b>181,215</b>	CSX Corp.	616,052	22,135			
<b>Financials (16.3%)</b>			Lockheed Martin Corp.	67,050	16,758			
JPMorgan Chase & Co.	589,258	50,847	Honeywell International Inc.	142,805	16,544			
Wells Fargo & Co.	781,560	43,072	Caterpillar Inc.	170,901	15,849			
Bank of America Corp.	1,932,937	42,718	FedEx Corp.	77,140	14,363			
Chubb Ltd.	282,500	37,324	Eaton Corp. plc	202,540	13,588			
Prudential Financial Inc.	339,410	35,319	Siemens AG	110,010	13,470			
PNC Financial Services Group Inc.	258,500	30,234	Boeing Co.	73,130	11,385			
BlackRock Inc.	44,009	16,747	Canadian National Railway Co.	166,348	11,212			
Marsh & McLennan Cos. Inc.	243,730	16,474	Schneider Electric SE	93,810	6,517			
			Airbus SE	94,290	6,228			
			ABB Ltd. ADR	273,098	5,754			
					<b>184,944</b>			

Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
<b>U.S. Government and Agency Obligations (5.8%)</b>				
<b>U.S. Government Securities (5.6%)</b>				
United States Treasury Note/Bond	0.625%	7/31/17	8,000	7,998
United States Treasury Note/Bond	1.000%	9/15/17	17,240	17,264
United States Treasury Note/Bond	0.750%	10/31/17	9,200	9,191
United States Treasury Note/Bond	0.625%	11/30/17	5,575	5,561
United States Treasury Note/Bond	0.875%	3/31/18	750	749
United States Treasury Note/Bond	0.750%	4/30/18	1,500	1,495
United States Treasury Note/Bond	1.000%	5/31/18	5,500	5,497
United States Treasury Note/Bond	0.750%	8/31/18	1,300	1,292
United States Treasury Note/Bond	1.375%	9/30/18	19,000	19,071
United States Treasury Note/Bond	0.750%	7/15/19	4,300	4,238
United States Treasury Note/Bond	1.750%	9/30/19	13,000	13,124
United States Treasury Note/Bond	1.375%	2/29/20	2,130	2,119
United States Treasury Note/Bond	1.625%	6/30/20	2,840	2,840
United States Treasury Note/Bond	1.250%	3/31/21	3,000	2,928
United States Treasury Note/Bond	1.375%	5/31/21	3,500	3,428
United States Treasury Note/Bond	2.000%	2/15/25	11,180	10,869
United States Treasury Note/Bond	2.000%	8/15/25	7,095	6,863
United States Treasury Note/Bond	2.250%	11/15/25	180	177
United States Treasury Note/Bond	1.625%	2/15/26	1,000	933
United States Treasury Note/Bond	1.625%	5/15/26	2,500	2,328
United States Treasury Note/Bond	1.500%	8/15/26	2,700	2,480
United States Treasury Note/Bond	2.875%	5/15/43	6,738	6,497
United States Treasury Note/Bond	3.375%	5/15/44	4,410	4,670
United States Treasury Note/Bond	3.125%	8/15/44	1,740	1,758
United States Treasury Note/Bond	2.500%	2/15/45	2,610	2,320
United States Treasury Note/Bond	2.875%	8/15/45	1,910	1,835
United States Treasury Note/Bond	2.500%	2/15/46	465	412
United States Treasury Note/Bond	2.500%	5/15/46	1,260	1,118
United States Treasury Note/Bond	2.250%	8/15/46	4,500	3,777
				<b>142,832</b>

**Conventional Mortgage-Backed Securities (0.1%)**

1.2 Fannie Mae Pool	3.000%	9/1/46–1/1/47	49	59
1.2 Fannie Mae Pool	4.500%	5/1/37–9/1/44	1,228	1,321
1.2 Freddie Mac Gold Pool	3.000%	4/1/45–1/1/47	25	28
1.2 Freddie Mac Gold Pool	4.000%	9/1/41	7	8
1 Ginnie Mae I Pool	7.000%	11/15/31–11/15/33	117	139
1 Ginnie Mae I Pool	8.000%	9/15/30	63	64
				<b>1,619</b>

**Nonconventional Mortgage-Backed Securities (0.1%)**

1.2 Fannie Mae REMICS	3.500%	4/25/31	245	253
1.2 Fannie Mae REMICS	4.000%	9/25/29–5/25/31	470	496
1.2 Freddie Mac REMICS	3.500%	3/15/31	145	149
1.2 Freddie Mac REMICS	4.000%	12/15/30–4/15/31	2,721	2,882
				<b>3,780</b>

**Total U.S. Government and Agency Obligations (Cost \$148,711)**

**148,231**

**Asset-Backed/Commercial Mortgage-Backed Securities (1.0%)**

3 American Tower Trust I	1.551%	3/15/18	380	378
3 American Tower Trust I	3.070%	3/15/23	1,100	1,091
1.3.4 Apidos CLO XVII	2.193%	4/17/26	1,295	1,294
1.3.4 ARES CLO Ltd.	2.400%	4/17/26	1,200	1,202
1.3.4 Atlas Senior Loan Fund Ltd.	2.420%	10/15/26	355	355
1.3.4 Cent CLO	2.376%	7/27/26	420	420
1.3.4 Cent CLO 20 Ltd.	2.362%	1/25/26	1,300	1,301
1.3.4 Cent CLO 22 Ltd.	2.291%	11/7/26	930	928
1.3.4 CIFIC Funding Ltd.	2.382%	4/18/25	1,185	1,187
1 COMM 2012-CCRE2 Mortgage Trust	3.147%	8/15/45	480	495
1.3.4 Dryden Senior Loan Fund	2.232%	4/18/26	1,165	1,166
1 Ford Credit Floorplan Master Owner Trust A Series 2012-2	1.920%	1/15/19	772	772

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
1.4 LB-UBS Commercial Mortgage Trust 2008-C1	6.113%	4/15/41	607	630
1.3.4 Limerock CLO	2.382%	4/18/26	1,300	1,301
1.3.4 Madison Park Funding XII Ltd.	2.328%	1/19/25	755	756
1.3.4 Madison Park Funding XIII Ltd.	2.381%	7/20/26	920	921
1.3 OneMain Financial Issuance Trust 2016-2	4.100%	3/20/28	770	785
1.3.4 OZLM VI Ltd.	2.430%	4/17/26	955	956
1 Santander Drive Auto Receivables Trust 2013-2	2.570%	3/15/19	515	519
1 Santander Drive Auto Receivables Trust 2014-2	2.330%	11/15/19	335	336
3 SBA Tower Trust	2.898%	10/15/19	1,205	1,212
1.3.4 Seneca Park CLO Ltd.	2.360%	7/17/26	680	681
1.3.4 SFAVE Commercial Mortgage Securities Trust 2015-SAVE	4.144%	1/5/43	700	693
1.3.4 Shackleton CLO Ltd.	2.360%	7/17/26	660	661
1.3 Springleaf Funding Trust	2.410%	12/15/22	349	349
1.3 Springleaf Funding Trust	3.160%	11/15/24	1,375	1,384
1.3 Springleaf Funding Trust 2015-B	3.480%	5/15/28	590	590
1.3.4 Symphony CLO XIV Ltd.	2.361%	7/14/26	1,125	1,128
1.3.4 Thacher Park CLO Ltd.	2.351%	10/20/26	505	506
1 Utility Debt Securitization Authority Series 2013T	3.435%	12/15/25	210	217
1.3.4 Voya CLO 2014-1 Ltd.	2.015%	4/18/26	525	525
<b>Total Asset-Backed/Commercial Mortgage-Backed Securities (Cost \$24,745)</b>				<b>24,739</b>

**Corporate Bonds (21.6%)**

**Finance (8.5%)**

**Banking (6.7%)**

American Express Centurion Bank	6.000%	9/13/17	500	515
American Express Co.	1.550%	5/22/18	1,635	1,632
American Express Credit Corp.	2.375%	3/24/17	1,920	1,925
American Express Credit Corp.	2.125%	7/27/18	1,235	1,241
American Express Credit Corp.	2.250%	8/15/19	800	804
Bank of America Corp.	6.000%	9/1/17	1,010	1,039
Bank of America Corp.	5.750%	12/1/17	500	518
Bank of America Corp.	6.875%	4/25/18	1,250	1,327
Bank of America Corp.	5.625%	7/1/20	85	93
Bank of America Corp.	5.875%	1/5/21	3,000	3,334
Bank of America Corp.	3.300%	1/11/23	120	120
Bank of America Corp.	4.000%	1/22/25	875	874
Bank of America Corp.	5.875%	2/7/42	260	314
Bank of America Corp.	5.000%	1/21/44	1,000	1,086
Bank of America Corp.	4.875%	4/1/44	420	454
Bank of America NA	5.300%	3/15/17	2,000	2,016
Bank of Montreal	2.500%	1/11/17	2,030	2,030
Bank of New York Mellon Corp.	2.150%	2/24/20	1,580	1,575
Bank of New York Mellon Corp.	2.200%	8/16/23	460	438
4 Bank of New York Mellon Corp.	1.937%	10/30/23	1,145	1,160
Bank of New York Mellon Corp.	3.000%	2/24/25	720	707
Bank of Nova Scotia	2.050%	10/30/18	1,600	1,607
Bank of Nova Scotia	2.800%	7/21/21	750	754
3 Bank of Tokyo-Mitsubishi UFJ Ltd.	1.700%	3/5/18	1,390	1,387
3 Banque Federative du Credit Mutuel SA	2.750%	10/15/20	1,200	1,204
3 Barclays Bank plc	6.050%	12/4/17	1,400	1,444
Barclays Bank plc	5.140%	10/14/20	160	169
BB&T Corp.	4.900%	6/30/17	1,000	1,016
Bear Stearns Cos. LLC	6.400%	10/2/17	235	243
Bear Stearns Cos. LLC	7.250%	2/1/18	425	449
BNP Paribas SA	2.400%	12/12/18	1,300	1,310
BNP Paribas SA	3.250%	3/3/23	305	307
BPCE SA	2.500%	12/10/18	220	222
BPCE SA	2.500%	7/15/19	1,400	1,408
BPCE SA	4.000%	4/15/24	775	804
3 BPCE SA	5.150%	7/21/24	1,260	1,279
Capital One Bank USA NA	2.150%	11/21/18	1,215	1,218
Capital One Financial Corp.	4.750%	7/15/21	400	431
Capital One Financial Corp.	3.750%	4/24/24	1,305	1,322
Capital One Financial Corp.	3.200%	2/5/25	1,050	1,018

## Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Capital One Financial Corp.	4.200%	10/29/25	310	310					
Citigroup Inc.	1.750%	5/1/18	500	499					
Citigroup Inc.	2.500%	9/26/18	500	504					
Citigroup Inc.	2.550%	4/8/19	1,800	1,815					
Citigroup Inc.	2.500%	7/29/19	965	971					
Citigroup Inc.	2.400%	2/18/20	800	798					
Citigroup Inc.	4.500%	1/14/22	1,975	2,104					
Citigroup Inc.	6.625%	6/15/32	2,000	2,424					
Citigroup Inc.	8.125%	7/15/39	101	149					
Compass Bank	2.750%	9/29/19	375	372					
Cooperatieve Rabobank UA	2.250%	1/14/19	1,350	1,356					
3 Credit Agricole SA	2.500%	4/15/19	1,460	1,466					
Credit Suisse AG	1.750%	1/29/18	840	838					
Credit Suisse AG	2.300%	5/28/19	2,845	2,852					
Credit Suisse AG	3.000%	10/29/21	735	741					
Credit Suisse AG	3.625%	9/9/24	250	252					
Credit Suisse Group Funding Guernsey Ltd.	3.800%	9/15/22	1,335	1,345					
Credit Suisse Group Funding Guernsey Ltd.	3.750%	3/26/25	1,595	1,556					
3 Danske Bank A/S	2.000%	9/8/21	1,120	1,086					
Deutsche Bank AG	1.875%	2/13/18	195	194					
Deutsche Bank AG	2.500%	2/13/19	270	268					
3 Deutsche Bank AG	4.250%	10/14/21	1,215	1,218					
Fifth Third Bank	2.875%	10/1/21	425	429					
Fifth Third Bank	3.850%	3/15/26	830	833					
Goldman Sachs Group Inc.	5.950%	1/18/18	1,325	1,380					
Goldman Sachs Group Inc.	2.375%	1/22/18	555	558					
Goldman Sachs Group Inc.	5.375%	3/15/20	405	439					
Goldman Sachs Group Inc.	2.600%	4/23/20	170	170					
Goldman Sachs Group Inc.	6.000%	6/15/20	3,350	3,713					
Goldman Sachs Group Inc.	5.250%	7/27/21	865	947					
Goldman Sachs Group Inc.	5.750%	1/24/22	360	402					
Goldman Sachs Group Inc.	3.625%	1/22/23	1,980	2,015					
Goldman Sachs Group Inc.	3.500%	11/16/26	2,000	1,959					
Goldman Sachs Group Inc.	6.450%	5/1/36	2,000	2,362					
Goldman Sachs Group Inc.	6.750%	10/1/37	835	1,023					
Goldman Sachs Group Inc.	4.750%	10/21/45	680	714					
3 HSBC Bank plc	4.750%	1/19/21	1,700	1,820					
HSBC Holdings plc	3.400%	3/8/21	1,535	1,559					
HSBC Holdings plc	4.000%	3/30/22	2,395	2,478					
HSBC Holdings plc	3.600%	5/25/23	1,600	1,606					
HSBC Holdings plc	6.500%	5/2/36	1,000	1,216					
HSBC Holdings plc	6.100%	1/14/42	375	462					
HSBC Holdings plc	5.250%	3/14/44	440	470					
HSBC USA Inc.	1.625%	1/16/18	1,005	1,003					
HSBC USA Inc.	2.350%	3/5/20	1,825	1,810					
HSBC USA Inc.	3.500%	6/23/24	800	804					
Huntington Bancshares Inc.	3.150%	3/14/21	800	811					
Huntington National Bank	2.200%	4/1/19	560	560					
Huntington National Bank	2.400%	4/1/20	1,160	1,154					
3 ING Bank NV	3.750%	3/7/17	600	602					
3 ING Bank NV	1.800%	3/16/18	1,340	1,339					
JPMorgan Chase & Co.	6.300%	4/23/19	465	507					
JPMorgan Chase & Co.	4.950%	3/25/20	650	700					
JPMorgan Chase & Co.	4.350%	8/15/21	4,862	5,183					
JPMorgan Chase & Co.	4.500%	1/24/22	495	533					
JPMorgan Chase & Co.	3.250%	9/23/22	970	980					
JPMorgan Chase & Co.	3.375%	5/1/23	875	872					
JPMorgan Chase & Co.	3.875%	2/1/24	800	828					
JPMorgan Chase & Co.	3.900%	7/15/25	2,270	2,333					
JPMorgan Chase & Co.	4.125%	12/15/26	765	778					
JPMorgan Chase & Co.	4.250%	10/1/27	2,295	2,349					
JPMorgan Chase & Co.	5.400%	1/6/42	750	878					
3 Macquarie Bank Ltd.	2.400%	1/21/20	330	327					
Manufacturers & Traders Trust Co.	2.100%	2/6/20	495	492					
Manufacturers & Traders Trust Co.	2.900%	2/6/25	685	667					
Morgan Stanley	5.450%	1/9/17	1,000	1,000					
Morgan Stanley	1.875%	1/5/18	255	255					
Morgan Stanley	2.125%	4/25/18	1,375	1,380					
Morgan Stanley	2.500%	1/24/19	2,500	2,519					
Morgan Stanley	5.625%	9/23/19	645	698					
Morgan Stanley	5.750%	1/25/21	1,740	1,927					
Morgan Stanley	2.500%	4/21/21	1,175	1,161					
Morgan Stanley	2.625%	11/17/21	800	788					
Morgan Stanley	3.700%	10/23/24	750	758					
Morgan Stanley	3.125%	7/27/26	1,345	1,276					
Morgan Stanley	6.250%	8/9/26	3,000	3,578					
Morgan Stanley	4.300%	1/27/45	850	842					
National City Corp.	6.875%	5/15/19	1,000	1,095					
3 Nationwide Building Society	2.350%	1/21/20	785	782					
Northern Trust Corp.	3.450%	11/4/20	255	266					
PNC Bank NA	4.875%	9/21/17	1,500	1,536					
PNC Bank NA	3.300%	10/30/24	460	463					
PNC Bank NA	2.950%	2/23/25	1,105	1,081					
PNC Bank NA	4.200%	11/1/25	255	270					
PNC Financial Services Group Inc.	3.900%	4/29/24	580	591					
Santander Bank NA	2.000%	1/12/18	715	713					
Santander Holdings USA Inc.	2.700%	5/24/19	800	799					
Santander Holdings USA Inc.	2.650%	4/17/20	580	571					
Santander Issuances SAU	5.179%	11/19/25	400	403					
3 Skandinaviska Enskilda Banken AB	2.450%	5/27/20	1,600	1,593					
State Street Corp.	5.375%	4/30/17	2,775	2,810					
SunTrust Bank	3.300%	5/15/26	340	328					
Svenska Handelsbanken AB	2.875%	4/4/17	1,000	1,004					
Svenska Handelsbanken AB	1.875%	9/7/21	1,050	1,017					
Synchrony Financial	3.000%	8/15/19	1,055	1,068					
Synchrony Financial	2.700%	2/3/20	1,605	1,600					
Toronto-Dominion Bank	2.500%	12/14/20	985	988					
UBS AG	1.800%	3/26/18	1,020	1,020					
3 UBS Group Funding Jersey Ltd.	2.950%	9/24/20	1,160	1,160					
3 UBS Group Funding Jersey Ltd.	2.650%	2/1/22	1,250	1,213					
US Bancorp	3.700%	1/30/24	1,560	1,618					
Wachovia Corp.	7.500%	4/15/35	1,000	1,288					
Wells Fargo & Co.	5.625%	12/11/17	820	850					
Wells Fargo & Co.	2.150%	1/15/19	2,915	2,936					
Wells Fargo & Co.	3.000%	1/22/21	505	512					
Wells Fargo & Co.	3.500%	3/8/22	640	658					
Wells Fargo & Co.	3.450%	2/13/23	930	936					
Wells Fargo & Co.	4.480%	1/16/24	1,199	1,261					
Wells Fargo & Co.	3.000%	2/19/25	890	853					
Wells Fargo & Co.	3.550%	9/29/25	860	855					
Wells Fargo & Co.	3.000%	4/22/26	1,045	990					
Wells Fargo & Co.	3.000%	10/23/26	510	484					
Wells Fargo & Co.	5.606%	1/15/44	2,276	2,559					
Wells Fargo & Co.	4.900%	11/17/45	515	525					
Wells Fargo & Co.	4.750%	12/7/46	620	626					
<b>Brokerage (0.0%)</b>									
Ameriprise Financial Inc.	5.300%	3/15/20	305	330					
<b>Finance Companies (0.4%)</b>									
GE Capital International Funding Co.	2.342%	11/15/20	1,192	1,190					
GE Capital International Funding Co.	3.373%	11/15/25	3,460	3,506					
GE Capital International Funding Co.	4.418%	11/15/35	4,955	5,186					
<b>Insurance (1.3%)</b>									
Aetna Inc.	1.750%	5/15/17	60	60					
Aetna Inc.	3.950%	9/1/20	140	147					
Aetna Inc.	2.800%	6/15/23	550	541					
Aetna Inc.	3.200%	6/15/26	1,195	1,181					
Aetna Inc.	4.250%	6/15/36	760	761					
1 Allstate Corp.	6.125%	5/15/67	1,000	975					
Anthem Inc.	2.300%	7/15/18	375	377					
Anthem Inc.	3.125%	5/15/22	1,610	1,603					
Anthem Inc.	3.300%	1/15/23	1,100	1,097					
Anthem Inc.	4.650%	8/15/44	276	279					
Berkshire Hathaway Inc.	2.750%	3/15/23	1,050	1,046					
Berkshire Hathaway Inc.	3.125%	3/15/26	715	709					
Chubb INA Holdings Inc.	5.800%	3/15/18	1,295	1,359					
Chubb INA Holdings Inc.	2.300%	11/3/20	170	170					
Chubb INA Holdings Inc.	3.350%	5/15/24	555	563					

## Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Chubb INA Holdings Inc.	4.350%	11/3/45	800	842	Illinois Tool Works Inc.	3.500%	3/1/24	1,295	1,337
Cigna Corp.	3.250%	4/15/25	1,730	1,677	John Deere Capital Corp.	2.250%	4/17/19	1,465	1,480
CNA Financial Corp.	3.950%	5/15/24	135	136	John Deere Capital Corp.	1.700%	1/15/20	520	513
<sup>3</sup> Five Corners Funding Trust	4.419%	11/15/23	210	221	Lockheed Martin Corp.	2.900%	3/1/25	610	594
<sup>3</sup> Liberty Mutual Group Inc.	4.250%	6/15/23	360	377	Lockheed Martin Corp.	4.500%	5/15/36	211	224
Loews Corp.	2.625%	5/15/23	440	427	Lockheed Martin Corp.	4.700%	5/15/46	520	566
<sup>1,3</sup> Massachusetts Mutual Life Insurance Co.	7.625%	11/15/23	2,000	2,353	Parker-Hannifin Corp.	4.450%	11/21/44	450	475
MetLife Inc.	1.903%	12/15/17	225	226	<sup>3</sup> Siemens Financieringsmaatschappij NV	2.900%	5/27/22	1,050	1,055
MetLife Inc.	3.600%	4/10/24	580	595	<sup>3</sup> Siemens Financieringsmaatschappij NV	4.400%	5/27/45	800	844
MetLife Inc.	4.125%	8/13/42	145	141	United Technologies Corp.	3.100%	6/1/22	535	548
MetLife Inc.	4.875%	11/13/43	530	572	United Technologies Corp.	7.500%	9/15/29	770	1,068
<sup>3</sup> Metropolitan Life Global Funding I	1.500%	1/10/18	1,480	1,479	United Technologies Corp.	6.050%	6/1/36	675	843
<sup>3</sup> Metropolitan Life Global Funding I	1.875%	6/22/18	950	952	United Technologies Corp.	4.500%	6/1/42	325	347
<sup>3</sup> Metropolitan Life Global Funding I	3.450%	12/18/26	640	644					
<sup>3</sup> New York Life Global Funding	1.650%	5/15/17	600	601	<b>Communication (1.7%)</b>				
<sup>3</sup> New York Life Insurance Co.	5.875%	5/15/33	2,100	2,488	21st Century Fox America Inc.	3.000%	9/15/22	245	243
<sup>3</sup> QBE Insurance Group Ltd.	2.400%	5/1/18	235	236	America Movil SAB de CV	3.125%	7/16/22	1,880	1,856
<sup>3</sup> Teachers Insurance & Annuity Assn. of America	4.900%	9/15/44	375	403	America Movil SAB de CV	6.125%	3/30/40	390	448
UnitedHealth Group Inc.	6.000%	6/15/17	500	511	American Tower Corp.	3.450%	9/15/21	1,125	1,138
UnitedHealth Group Inc.	6.000%	2/15/18	700	734	American Tower Corp.	5.000%	2/15/24	220	236
UnitedHealth Group Inc.	3.875%	10/15/20	601	630	AT&T Inc.	1.400%	12/1/17	1,090	1,088
UnitedHealth Group Inc.	2.875%	3/15/22	27	27	AT&T Inc.	5.600%	5/15/18	1,000	1,049
UnitedHealth Group Inc.	2.875%	3/15/23	1,175	1,177	AT&T Inc.	5.200%	3/15/20	255	274
UnitedHealth Group Inc.	3.100%	3/15/26	430	424	AT&T Inc.	2.450%	6/30/20	225	223
UnitedHealth Group Inc.	4.625%	7/15/35	815	886	AT&T Inc.	4.600%	2/15/21	100	106
UnitedHealth Group Inc.	4.250%	3/15/43	1,600	1,625	AT&T Inc.	4.500%	3/9/48	1,077	969
UnitedHealth Group Inc.	4.750%	7/15/45	760	837	CBS Corp.	4.300%	2/15/21	675	715
<b>Other Finance (0.0%)</b>					Comcast Corp.	3.600%	3/1/24	2,900	2,992
<sup>3</sup> LeasePlan Corp. NV	2.875%	1/22/19	970	969	Comcast Corp.	4.250%	1/15/33	1,032	1,069
<b>Real Estate Investment Trusts (0.1%)</b>					Comcast Corp.	4.200%	8/15/34	620	633
AvalonBay Communities Inc.	3.625%	10/1/20	520	539	Comcast Corp.	5.650%	6/15/35	110	131
Boston Properties LP	3.125%	9/1/23	355	347	Comcast Corp.	4.400%	8/15/35	700	731
Duke Realty LP	6.500%	1/15/18	210	220	Comcast Corp.	6.500%	11/15/35	115	148
Realty Income Corp.	4.650%	8/1/23	640	685	Comcast Corp.	6.400%	5/15/38	120	154
Simon Property Group LP	3.375%	10/1/24	275	277	Comcast Corp.	4.650%	7/15/42	1,290	1,338
<sup>3</sup> WEA Finance LLC / Westfield UK & Europe Finance plc	1.750%	9/15/17	375	375	Comcast Corp.	4.500%	1/15/43	500	513
<sup>3</sup> WEA Finance LLC / Westfield UK & Europe Finance plc	2.700%	9/17/19	1,330	1,345	Comcast Corp.	4.750%	3/1/44	525	560
				218,539	Comcast Corp.	4.600%	8/15/45	845	878
<b>Industrial (11.0%)</b>					<sup>3</sup> Cox Communications Inc.	4.800%	2/1/35	1,540	1,433
<b>Basic Industry (0.1%)</b>					<sup>3</sup> Deutsche Telekom International Finance BV	4.875%	3/6/42	705	751
BHP Billiton Finance USA Ltd.	3.850%	9/30/23	750	791	Discovery Communications LLC	5.625%	8/15/19	80	86
LyondellBasell Industries NV	4.625%	2/26/55	650	599	Discovery Communications LLC	5.050%	6/1/20	420	451
Monsanto Co.	4.700%	7/15/64	230	207	Grupo Televisa SAB	6.625%	1/15/40	630	664
Rio Tinto Finance USA plc	3.500%	3/22/22	42	43	Grupo Televisa SAB	6.125%	1/31/46	410	407
<b>Capital Goods (0.9%)</b>					<sup>3</sup> GTP Acquisition Partners I LLC	2.350%	6/15/20	580	572
<sup>3</sup> BAE Systems Holdings Inc.	2.850%	12/15/20	160	160	<sup>3</sup> NBCUniversal Enterprise Inc.	1.974%	4/15/19	2,530	2,537
<sup>3</sup> BAE Systems Holdings Inc.	3.850%	12/15/25	1,085	1,102	NBCUniversal Media LLC	4.375%	4/1/21	600	647
Caterpillar Financial Services Corp.	2.625%	3/1/23	1,360	1,337	NBCUniversal Media LLC	2.875%	1/15/23	240	239
Caterpillar Inc.	3.900%	5/27/21	1,170	1,231	Omnicom Group Inc.	3.600%	4/15/26	660	651
Caterpillar Inc.	2.600%	6/26/22	705	699	Orange SA	4.125%	9/14/21	1,740	1,836
Caterpillar Inc.	3.400%	5/15/24	810	831	Orange SA	9.000%	3/1/31	530	797
Caterpillar Inc.	4.300%	5/15/44	745	774	<sup>1,3</sup> SBA Tower Trust	2.933%	12/15/42	840	840
General Dynamics Corp.	3.875%	7/15/21	355	376	<sup>3</sup> Sky plc	2.625%	9/16/19	975	976
General Electric Capital Corp.	4.625%	1/7/21	321	348	<sup>3</sup> Sky plc	3.750%	9/16/24	1,435	1,439
General Electric Capital Corp.	5.300%	2/11/21	228	253	Time Warner Cable LLC	5.850%	5/1/17	1,030	1,044
General Electric Capital Corp.	3.150%	9/7/22	967	986	Time Warner Cable LLC	8.750%	2/14/19	25	28
General Electric Capital Corp.	3.100%	1/9/23	360	365	Time Warner Cable LLC	8.250%	4/1/19	364	409
General Electric Capital Corp.	6.750%	3/15/32	135	179	Time Warner Entertainment Co. LP	8.375%	3/15/23	95	119
General Electric Capital Corp.	6.150%	8/7/37	633	814	Time Warner Inc.	4.875%	3/15/20	700	748
General Electric Capital Corp.	5.875%	1/14/38	443	556	Time Warner Inc.	4.750%	3/29/21	350	375
General Electric Capital Corp.	6.875%	1/10/39	187	263	Verizon Communications Inc.	4.500%	9/15/20	1,280	1,368
General Electric Co.	2.700%	10/9/22	210	210	Verizon Communications Inc.	3.500%	11/1/21	1,040	1,071
General Electric Co.	4.500%	3/11/44	1,050	1,121	Verizon Communications Inc.	6.400%	9/15/33	2,230	2,689
Honeywell International Inc.	4.250%	3/1/21	1,002	1,082	Verizon Communications Inc.	5.850%	9/15/35	475	542
					Verizon Communications Inc.	6.900%	4/15/38	290	354
					Verizon Communications Inc.	4.750%	11/1/41	290	284
					Verizon Communications Inc.	6.550%	9/15/43	710	880
					Verizon Communications Inc.	4.862%	8/21/46	1,151	1,164
					Walt Disney Co.	4.125%	6/1/44	560	577



## Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
<b>Consumer Cyclical (1.5%)</b>									
Alibaba Group Holding Ltd.	3.600%	11/28/24	1,065	1,057					
Amazon.com Inc.	2.500%	11/29/22	885	876					
Amazon.com Inc.	4.800%	12/5/34	995	1,094					
Amazon.com Inc.	4.950%	12/5/44	580	661					
<sup>3</sup> American Honda Finance Corp.	1.500%	9/11/17	490	490	<sup>3</sup>	Bayer US Finance LLC	3.000%	10/8/21	1,980
<sup>3</sup> American Honda Finance Corp.	1.600%	2/16/18	810	811	<sup>3</sup>	Bayer US Finance LLC	3.375%	10/8/24	295
American Honda Finance Corp.	2.125%	10/10/18	1,110	1,120		Biogen Inc.	2.900%	9/15/20	550
AutoZone Inc.	3.700%	4/15/22	1,371	1,416		Bristol-Myers Squibb Co.	3.250%	11/1/23	990
AutoZone Inc.	3.125%	7/15/23	600	593		Cardinal Health Inc.	1.700%	3/15/18	75
<sup>3</sup> BMW US Capital LLC	2.000%	4/11/21	585	572		Cardinal Health Inc.	2.400%	11/15/19	625
<sup>3</sup> BMW US Capital LLC	2.250%	9/15/23	2,500	2,393		Cardinal Health Inc.	3.200%	3/15/23	1,065
<sup>3</sup> BMW US Capital LLC	2.800%	4/11/26	271	261		Cardinal Health Inc.	3.500%	11/15/24	580
CVS Health Corp.	2.750%	12/1/22	965	951		Cardinal Health Inc.	4.500%	11/15/44	665
CVS Health Corp.	4.875%	7/20/35	315	338		Cardinal Health Inc.	4.300%	5/14/21	2,092
CVS Health Corp.	5.125%	7/20/45	1,310	1,457	<sup>3</sup>	Cargill Inc.	4.307%	5/1/28	645
<sup>3</sup> Daimler Finance North America LLC	2.375%	8/1/18	900	907	<sup>3</sup>	Cargill Inc.	6.875%	5/1/28	645
<sup>3</sup> Daimler Finance North America LLC	2.250%	7/31/19	1,575	1,577	<sup>3</sup>	Cargill Inc.	4.760%	11/23/45	635
Ford Motor Co.	4.346%	12/8/26	1,225	1,236		Catholic Health Initiatives Colorado GO	1.600%	11/1/17	55
Ford Motor Credit Co. LLC	2.375%	3/12/19	900	899		Catholic Health Initiatives Colorado GO	2.600%	8/1/18	255
Ford Motor Credit Co. LLC	3.157%	8/4/20	710	715		Catholic Health Initiatives Colorado GO	4.350%	11/1/42	746
Home Depot Inc.	2.250%	9/10/18	975	987		Celgene Corp.	2.250%	5/15/19	160
Home Depot Inc.	2.700%	4/1/23	720	718		Celgene Corp.	3.550%	8/15/22	475
Home Depot Inc.	4.400%	3/15/45	780	823		Coca-Cola Co.	3.300%	9/1/21	300
Lowe's Cos. Inc.	6.875%	2/15/28	710	929		Coca-Cola Enterprises Inc.	3.500%	9/15/20	500
Lowe's Cos. Inc.	6.500%	3/15/29	1,000	1,291		Coca-Cola Femsa SAB de CV	2.375%	11/26/18	768
McDonald's Corp.	2.625%	1/15/22	195	194		Coca-Cola Femsa SAB de CV	3.875%	11/26/23	850
McDonald's Corp.	3.250%	6/10/24	140	142		Colgate-Palmolive Co.	7.600%	5/19/25	480
McDonald's Corp.	4.875%	12/9/45	260	277		Diageo Capital plc	2.625%	4/29/23	1,230
<sup>3</sup> Nissan Motor Acceptance Corp.	1.950%	9/12/17	1,186	1,189		Diageo Investment Corp.	2.875%	5/11/22	525
<sup>3</sup> Nissan Motor Acceptance Corp.	1.800%	3/15/18	1,100	1,101		Dignity Health California GO	2.637%	11/1/19	140
<sup>3</sup> Nissan Motor Acceptance Corp.	2.650%	9/26/18	585	590		Dignity Health California GO	3.812%	11/1/24	300
PACCAR Financial Corp.	1.600%	3/15/17	752	753		Eli Lilly & Co.	3.700%	3/1/45	635
Toyota Motor Credit Corp.	1.750%	5/22/17	1,200	1,203	<sup>3</sup>	EMD Finance LLC	2.950%	3/19/22	605
Toyota Motor Credit Corp.	1.250%	10/5/17	900	900	<sup>3</sup>	EMD Finance LLC	3.250%	3/19/25	1,200
<sup>3</sup> Volkswagen Group of America					<sup>3</sup>	Forest Laboratories Inc.	4.875%	2/15/21	575
Finance LLC	2.450%	11/20/19	440	439		Gilead Sciences Inc.	2.550%	9/1/20	615
Wal-Mart Stores Inc.	3.250%	10/25/20	742	769		Gilead Sciences Inc.	3.700%	4/1/24	1,010
Wal-Mart Stores Inc.	4.250%	4/15/21	1,000	1,080		Gilead Sciences Inc.	3.500%	2/1/25	560
Wal-Mart Stores Inc.	2.550%	4/11/23	1,250	1,239		Gilead Sciences Inc.	4.500%	2/1/45	825
Wal-Mart Stores Inc.	5.625%	4/15/41	2,790	3,446		Gilead Sciences Inc.	4.750%	3/1/46	195
Wal-Mart Stores Inc.	4.300%	4/22/44	525	553		GlaxoSmithKline Capital Inc.	2.800%	3/18/23	385
						GlaxoSmithKline Capital Inc.	5.375%	4/15/34	2,000
<b>Consumer Noncyclical (3.8%)</b>					<sup>3</sup>	Imperial Tobacco Finance plc	3.750%	7/21/22	1,680
Actavis Funding SCS	3.000%	3/12/20	985	998	<sup>3</sup>	Japan Tobacco Inc.	2.100%	7/23/18	545
Actavis Funding SCS	3.450%	3/15/22	950	953		Kaiser Foundation Hospitals	3.500%	4/1/22	560
Actavis Funding SCS	4.550%	3/15/35	375	368		Kaiser Foundation Hospitals	4.875%	4/1/42	365
Actavis Funding SCS	4.850%	6/15/44	450	445		Kraft Foods Group Inc.	2.250%	6/5/17	295
Altria Group Inc.	4.750%	5/5/21	590	643		Kraft Heinz Foods Co.	5.000%	7/15/35	230
Altria Group Inc.	2.850%	8/9/22	455	455		Kraft Heinz Foods Co.	4.375%	6/1/46	710
Altria Group Inc.	4.500%	5/2/43	245	248		McKesson Corp.	2.700%	12/15/22	195
AmerisourceBergen Corp.	3.500%	11/15/21	1,310	1,346		McKesson Corp.	2.850%	3/15/23	190
Amgen Inc.	3.875%	11/15/21	310	324		McKesson Corp.	3.796%	3/15/24	305
Amgen Inc.	5.150%	11/15/41	945	996		Medtronic Inc.	1.375%	4/1/18	225
<sup>3</sup> Amgen Inc.	4.563%	6/15/48	125	120		Medtronic Inc.	2.500%	3/15/20	935
Anheuser-Busch InBev Finance Inc.	3.300%	2/1/23	2,000	2,034		Medtronic Inc.	3.150%	3/15/22	1,690
Anheuser-Busch InBev Finance Inc.	3.650%	2/1/26	1,805	1,830		Medtronic Inc.	3.625%	3/15/24	270
Anheuser-Busch InBev Finance Inc.	4.700%	2/1/36	4,915	5,164		Medtronic Inc.	3.500%	3/15/25	2,196
Anheuser-Busch InBev Finance Inc.	4.900%	2/1/46	2,640	2,852		Medtronic Inc.	4.375%	3/15/35	249
Anheuser-Busch InBev Worldwide Inc.	3.750%	1/15/22	400	418		Memorial Sloan-Kettering			
Anheuser-Busch InBev Worldwide Inc.	2.500%	7/15/22	3,780	3,718		Cancer Center New York GO	4.125%	7/1/52	275
Anheuser-Busch InBev Worldwide Inc.	3.750%	7/15/42	520	470		Memorial Sloan-Kettering			
AstraZeneca plc	1.950%	9/18/19	390	389		Cancer Center New York GO	4.200%	7/1/55	405
AstraZeneca plc	2.375%	11/16/20	1,180	1,175		Merck & Co. Inc.	2.350%	2/10/22	790
AstraZeneca plc	6.450%	9/15/37	615	793		Merck & Co. Inc.	2.800%	5/18/23	1,175
AstraZeneca plc	4.375%	11/16/45	800	796		Merck & Co. Inc.	2.750%	2/10/25	1,210
<sup>1,3,4</sup> Avery Point IV CLO Ltd.	2.402%	4/25/26	1,190	1,191		Merck & Co. Inc.	4.150%	5/18/43	760
<sup>3</sup> BAT International Finance plc	2.750%	6/15/20	550	552		Molson Coors Brewing Co.	3.500%	5/1/22	690
<sup>3</sup> BAT International Finance plc	3.250%	6/7/22	1,480	1,500		Molson Coors Brewing Co.	5.000%	5/1/42	160
<sup>3</sup> BAT International Finance plc	3.500%	6/15/22	235	241		New York & Presbyterian Hospital	4.024%	8/1/45	735
<sup>3</sup> Bayer US Finance LLC	2.375%	10/8/19	200	200		Novartis Capital Corp.	3.400%	5/6/24	415
						Novartis Capital Corp.	4.400%	5/6/44	640
						Partners Healthcare System			
						Massachusetts GO	3.443%	7/1/21	50
						PepsiCo Inc.	3.125%	11/1/20	330
						PepsiCo Inc.	2.750%	3/5/22	670
						PepsiCo Inc.	2.375%	10/6/26	1,945

## Vanguard Balanced Portfolio

			Face Amount	Market Value*				Face Amount	Market Value*		
	Coupon	Maturity Date	(\$000)	(\$000)		Coupon	Maturity Date	(\$000)	(\$000)		
	PepsiCo Inc.	4.000%	3/5/42	845	837		Shell International Finance BV	5.500%	3/25/40	345	401
	PepsiCo Inc.	3.450%	10/6/46	1,215	1,100		Shell International Finance BV	4.375%	5/11/45	2,500	2,538
	Pfizer Inc.	3.000%	6/15/23	755	764		Suncor Energy Inc.	6.100%	6/1/18	400	422
	Pfizer Inc.	3.000%	12/15/26	1,200	1,181		Suncor Energy Inc.	5.950%	12/1/34	500	587
	Philip Morris International Inc.	4.500%	3/26/20	250	267		Sunoco Logistics Partners				
	Philip Morris International Inc.	4.125%	5/17/21	1,025	1,094		Operations LP	4.400%	4/1/21	1,225	1,290
	Philip Morris International Inc.	2.500%	8/22/22	575	562		Total Capital International SA	1.550%	6/28/17	1,365	1,367
	Philip Morris International Inc.	2.625%	3/6/23	1,150	1,130		Total Capital International SA	2.700%	1/25/23	885	876
	Philip Morris International Inc.	4.875%	11/15/43	145	157		Total Capital International SA	3.750%	4/10/24	1,400	1,464
1	Procter & Gamble - Esop	9.360%	1/1/21	917	1,066		Total Capital SA	2.125%	8/10/18	850	856
	Providence St. Joseph Health						TransCanada PipeLines Ltd.	3.800%	10/1/20	1,220	1,272
	Obligated Group	2.746%	10/1/26	490	461		TransCanada PipeLines Ltd.	4.875%	1/15/26	1,255	1,393
1	Providence St. Joseph Health										
	Obligated Group	3.744%	10/1/47	305	281						
3	Roche Holdings Inc.	2.875%	9/29/21	850	863	3	Other Industrial (0.0%)				
3	Roche Holdings Inc.	2.375%	1/28/27	1,650	1,538		Hutchison Whampoa				
	Sanofi	4.000%	3/29/21	1,130	1,197		International 11 Ltd.	3.500%	1/13/17	305	305
3	Sigma Alimentos SA de CV	4.125%	5/2/26	510	486	1	Johns Hopkins University				
	Teva Pharmaceutical Finance						Maryland GO	4.083%	7/1/53	690	688
	Netherlands III BV	2.800%	7/21/23	980	921						
	Teva Pharmaceutical Finance						Technology (0.9%)				
	Netherlands III BV	3.150%	10/1/26	240	221		Apple Inc.	2.850%	5/6/21	1,100	1,121
	Teva Pharmaceutical Finance						Apple Inc.	3.450%	5/6/24	1,000	1,030
	Netherlands III BV	4.100%	10/1/46	400	341		Apple Inc.	3.250%	2/23/26	1,020	1,022
	The Kroger Co.	3.850%	8/1/23	270	281		Apple Inc.	2.450%	8/4/26	1,170	1,096
	The Kroger Co.	4.000%	2/1/24	540	563		Apple Inc.	3.850%	5/4/43	430	412
	The Kroger Co.	3.875%	10/15/46	785	716		Apple Inc.	4.450%	5/6/44	120	124
	The Pepsi Bottling Group Inc.	7.000%	3/1/29	500	680		Apple Inc.	3.850%	8/4/46	985	945
	Unilever Capital Corp.	4.250%	2/10/21	2,805	3,010		Cisco Systems Inc.	4.450%	1/15/20	605	648
							Cisco Systems Inc.	2.900%	3/4/21	320	327
	Energy (1.6%)						Cisco Systems Inc.	2.500%	9/20/26	431	409
3	BG Energy Capital plc	4.000%	10/15/21	555	588		Intel Corp.	4.100%	5/19/46	1,360	1,354
	BP Capital Markets plc	1.846%	5/5/17	650	651		International Business Machines Corp.	3.375%	8/1/23	1,750	1,787
	BP Capital Markets plc	4.750%	3/10/19	795	841		International Business Machines Corp.	5.875%	11/29/32	1,250	1,561
	BP Capital Markets plc	2.315%	2/13/20	160	160		Microsoft Corp.	2.375%	2/12/22	635	632
	BP Capital Markets plc	4.500%	10/1/20	400	428		Microsoft Corp.	3.625%	12/15/23	500	526
	BP Capital Markets plc	3.062%	3/17/22	1,100	1,109		Microsoft Corp.	2.700%	2/12/25	760	743
	BP Capital Markets plc	3.245%	5/6/22	650	662		Microsoft Corp.	3.125%	11/3/25	845	852
	BP Capital Markets plc	2.500%	11/6/22	500	489		Microsoft Corp.	2.400%	8/8/26	1,890	1,775
	BP Capital Markets plc	3.994%	9/26/23	420	441		Microsoft Corp.	3.500%	2/12/35	605	578
	BP Capital Markets plc	3.814%	2/10/24	1,700	1,757		Microsoft Corp.	3.450%	8/8/36	1,725	1,638
	BP Capital Markets plc	3.506%	3/17/25	1,280	1,290		Microsoft Corp.	4.450%	11/3/45	380	403
	Chevron Corp.	3.191%	6/24/23	1,235	1,263		Microsoft Corp.	3.700%	8/8/46	1,615	1,518
	ConocoPhillips	5.200%	5/15/18	1,500	1,567		Oracle Corp.	2.800%	7/8/21	375	384
	ConocoPhillips	5.750%	2/1/19	200	215		Oracle Corp.	2.500%	5/15/22	1,210	1,197
	ConocoPhillips	6.000%	1/15/20	95	105		Oracle Corp.	2.950%	5/15/25	355	347
	ConocoPhillips Co.	2.875%	11/15/21	686	690		Transportation (0.5%)				
	ConocoPhillips Co.	3.350%	11/15/24	1,040	1,040		Burlington Northern Santa Fe LLC	3.000%	3/15/23	565	571
	ConocoPhillips Co.	3.350%	5/15/25	245	243		Burlington Northern Santa Fe LLC	3.850%	9/1/23	1,630	1,725
	ConocoPhillips Co.	4.950%	3/15/26	115	127	1	Continental Airlines 2007-1 Class				
	ConocoPhillips Co.	4.300%	11/15/44	1,570	1,558		A Pass Through Trust	5.983%	10/19/23	709	786
	Devon Energy Corp.	3.250%	5/15/22	495	492	3	ERAC USA Finance LLC	2.750%	3/15/17	205	206
	Dominion Gas Holdings LLC	3.550%	11/1/23	470	475	3	ERAC USA Finance LLC	2.350%	10/15/19	610	609
	EOG Resources Inc.	5.625%	6/1/19	425	459	3	ERAC USA Finance LLC	4.500%	8/16/21	325	346
	Exxon Mobil Corp.	2.222%	3/1/21	380	380	3	ERAC USA Finance LLC	3.300%	10/15/22	40	40
	Exxon Mobil Corp.	2.726%	3/1/23	320	320	3	ERAC USA Finance LLC	7.000%	10/15/37	1,150	1,455
	Exxon Mobil Corp.	3.043%	3/1/26	225	224	1	Federal Express Corp. 1998				
	Exxon Mobil Corp.	4.114%	3/1/46	320	327		Pass Through Trust	6.720%	1/15/22	908	1,001
	Halliburton Co.	3.500%	8/1/23	1,980	2,015		FedEx Corp.	2.700%	4/15/23	255	252
	Noble Energy Inc.	4.150%	12/15/21	425	444		FedEx Corp.	4.900%	1/15/34	230	244
	Occidental Petroleum Corp.	4.100%	2/1/21	1,120	1,190		FedEx Corp.	3.875%	8/1/42	120	109
	Occidental Petroleum Corp.	2.700%	2/15/23	250	247		FedEx Corp.	4.100%	4/15/43	500	465
	Occidental Petroleum Corp.	3.400%	4/15/26	790	794		FedEx Corp.	5.100%	1/15/44	340	368
	Occidental Petroleum Corp.	4.400%	4/15/46	625	633		FedEx Corp.	4.550%	4/1/46	415	417
	Phillips 66	4.875%	11/15/44	280	294		Kansas City Southern	4.950%	8/15/45	905	918
3	Schlumberger Holdings Corp.	3.000%	12/21/20	800	815		Norfolk Southern Corp.	7.700%	5/15/17	1,500	1,534
3	Schlumberger Investment SA	2.400%	8/1/22	630	619	1	Southwest Airlines Co. 2007-1				
	Schlumberger Investment SA	3.650%	12/1/23	1,120	1,171		Pass Through Trust	6.150%	2/1/24	372	412
	Shell International Finance BV	4.375%	3/25/20	800	853		United Parcel Service Inc.	2.450%	10/1/22	425	423
	Shell International Finance BV	2.250%	11/10/20	1,600	1,594		United Parcel Service Inc.	4.875%	11/15/40	460	525
	Shell International Finance BV	4.125%	5/11/35	1,200	1,217						
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## Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
<b>Utilities (2.1%)</b>				
<b>Electric (1.9%)</b>				
Alabama Power Co.	5.550%	2/1/17	585	587
Alabama Power Co.	3.750%	3/1/45	630	594
Ameren Illinois Co.	6.125%	12/15/28	1,000	1,167
Berkshire Hathaway Energy Co.	6.125%	4/1/36	1,190	1,488
Berkshire Hathaway Energy Co.	6.500%	9/15/37	575	745
Commonwealth Edison Co.	4.350%	11/15/45	220	230
Connecticut Light & Power Co.	5.650%	5/1/18	465	490
Consolidated Edison Co. of New York Inc.	4.500%	12/1/45	980	1,037
Consolidated Edison Co. of New York Inc.	4.625%	12/1/54	1,365	1,429
Delmarva Power & Light Co.	3.500%	11/15/23	305	314
4 Dominion Resources Inc.	2.962%	7/1/19	495	501
Dominion Resources Inc.	5.200%	8/15/19	750	806
Dominion Resources Inc.	3.625%	12/1/24	1,515	1,524
Duke Energy Carolinas LLC	5.250%	1/15/18	275	285
Duke Energy Carolinas LLC	5.100%	4/15/18	590	617
Duke Energy Carolinas LLC	3.900%	6/15/21	1,090	1,156
Duke Energy Carolinas LLC	6.100%	6/1/37	391	481
Duke Energy Corp.	2.650%	9/1/26	315	294
Duke Energy Corp.	4.800%	12/15/45	1,200	1,266
Duke Energy Corp.	3.750%	9/1/46	265	238
Duke Energy Florida LLC	6.350%	9/15/37	200	259
Duke Energy Progress LLC	6.300%	4/1/38	365	471
Duke Energy Progress LLC	4.200%	8/15/45	845	859
Eversource Energy	4.500%	11/15/19	90	95
Eversource Energy	3.150%	1/15/25	110	108
Florida Power & Light Co.	5.650%	2/1/35	1,000	1,198
Florida Power & Light Co.	4.950%	6/1/35	1,000	1,145
Florida Power & Light Co.	5.950%	2/1/38	785	1,005
3 Fortis Inc.	3.055%	10/4/26	1,195	1,115
Georgia Power Co.	5.400%	6/1/18	1,165	1,226
Georgia Power Co.	5.950%	2/1/39	218	263
Georgia Power Co.	5.400%	6/1/40	1,163	1,328
Georgia Power Co.	4.750%	9/1/40	168	177
Georgia Power Co.	4.300%	3/15/42	950	967
National Rural Utilities Cooperative Finance Corp.	5.450%	2/1/18	1,500	1,564
National Rural Utilities Cooperative Finance Corp.	2.850%	1/27/25	1,040	1,016
Northern States Power Co.	6.250%	6/1/36	2,000	2,587
Pacific Gas & Electric Co.	4.250%	5/15/21	300	319
Pacific Gas & Electric Co.	3.850%	11/15/23	450	474
Pacific Gas & Electric Co.	3.750%	2/15/24	305	318
Pacific Gas & Electric Co.	5.125%	11/15/43	285	325
PacifiCorp	6.250%	10/15/37	2,000	2,587
PECO Energy Co.	5.350%	3/1/18	565	589
Potomac Electric Power Co.	6.500%	11/15/37	750	982
Public Service Electric & Gas Co.	5.300%	5/1/18	1,900	1,994
San Diego Gas & Electric Co.	6.000%	6/1/26	600	729
Sierra Pacific Power Co.	3.375%	8/15/23	850	870
South Carolina Electric & Gas Co.	6.050%	1/15/38	1,000	1,236
South Carolina Electric & Gas Co.	4.100%	6/15/46	525	524
South Carolina Electric & Gas Co.	5.100%	6/1/65	605	665
Southern California Edison Co.	2.400%	2/1/22	170	170
Southern California Edison Co.	6.000%	1/15/34	1,000	1,235
Southern California Edison Co.	5.550%	1/15/37	2,250	2,685
Southern California Edison Co.	3.600%	2/1/45	141	133
Southern Co.	2.450%	9/1/18	225	227
Southern Co.	2.950%	7/1/23	1,280	1,262
Virginia Electric & Power Co.	2.750%	3/15/23	690	684
Wisconsin Electric Power Co.	5.700%	12/1/36	690	840
<b>Natural Gas (0.2%)</b>				
3 KeySpan Gas East Corp.	2.742%	8/15/26	670	635
Nisource Finance Corp.	5.250%	2/15/43	390	431
NiSource Finance Corp.	4.800%	2/15/44	1,355	1,425

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Sempra Energy	2.875%	10/1/22	750	742
Southern California Gas Co.	2.600%	6/15/26	820	786
				<b>53,499</b>
<b>Total Corporate Bonds (Cost \$535,835)</b>				<b>553,179</b>
<b>Sovereign Bonds (1.8%)</b>				
3 CDP Financial Inc.	4.400%	11/25/19	1,000	1,068
3 Electricite de France SA	4.600%	1/27/20	1,200	1,272
3 Electricite de France SA	4.875%	1/22/44	50	48
3 Electricite de France SA	4.950%	10/13/45	400	407
1.3 Electricite de France SA	5.250%	1/29/49	235	222
1.3 Electricite de France SA	5.625%	12/29/49	595	559
Export-Import Bank of Korea	1.750%	5/26/19	2,000	1,989
International Bank for Reconstruction & Development	4.750%	2/15/35	2,000	2,432
5 Japan	0.000%	3/6/17	150,000	1,284
5 Japan	0.000%	3/21/17	180,000	1,541
5 Japan Treasury Discount Bill	0.000%	2/13/17	210,000	1,797
5 Japan Treasury Discount Bill	0.000%	2/27/17	220,000	1,883
3 Kingdom of Saudi Arabia	2.375%	10/26/21	850	825
Korea Development Bank	2.875%	8/22/18	505	513
Korea Development Bank	2.500%	3/1/20	2,000	1,991
3 Petroleos Mexicanos	5.500%	2/4/19	330	344
6 Province of New Brunswick	0.000%	1/24/17	1,000	745
6 Province of Ontario	0.000%	2/1/17	1,000	744
Province of Ontario	2.500%	4/27/26	2,150	2,068
Province of Quebec	2.500%	4/20/26	3,820	3,642
6 Quebec	0.000%	2/3/17	2,000	1,489
6 Quebec	0.000%	2/6/17	1,000	744
6 Quebec	0.000%	2/10/17	1,000	744
3 Sinopec Group Overseas Development 2015 Ltd.	2.500%	4/28/20	1,615	1,602
3 Sinopec Group Overseas Development 2015 Ltd.	3.250%	4/28/25	1,615	1,547
3 State Grid Overseas Investment 2014 Ltd.	2.750%	5/7/19	1,305	1,322
Statoil ASA	2.250%	11/8/19	580	583
Statoil ASA	2.900%	11/8/20	1,410	1,436
Statoil ASA	2.750%	11/10/21	850	857
Statoil ASA	2.450%	1/17/23	382	372
Statoil ASA	2.650%	1/15/24	360	352
Statoil ASA	3.700%	3/1/24	640	667
Statoil ASA	3.250%	11/10/24	795	803
3 Temasek Financial I Ltd.	2.375%	1/23/23	1,130	1,102
7 United Kingdom Treasury Bill	0.000%	1/3/17	1,600	1,972
7 United Kingdom Treasury Bill	0.000%	1/9/17	1,600	1,973
7 United Kingdom Treasury Bill	0.000%	1/23/17	1,200	1,479
United Mexican States	3.500%	1/21/21	342	348
United Mexican States	3.600%	1/30/25	305	295
United Mexican States	4.750%	3/8/44	170	156
<b>Total Sovereign Bonds (Cost \$45,393)</b>				<b>45,217</b>
<b>Taxable Municipal Bonds (1.6%)</b>				
Atlanta GA Downtown Development Authority Revenue	6.875%	2/1/21	300	331
Bay Area Toll Authority California Toll Bridge Revenue (San Francisco Bay Area)	6.263%	4/1/49	1,000	1,359
Bay Area Toll Authority California Toll Bridge Revenue (San Francisco Bay Area)	7.043%	4/1/50	715	1,011
California GO	5.700%	11/1/21	265	304
California GO	7.550%	4/1/39	1,170	1,737
California GO	7.300%	10/1/39	300	424
California GO	7.625%	3/1/40	90	132
California GO	7.600%	11/1/40	920	1,384
Chicago IL Metropolitan Water Reclamation District GO	5.720%	12/1/38	215	257

Vanguard Balanced Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Chicago IL O'Hare International Airport Revenue	6.845%	1/1/38	530	594
Chicago IL O'Hare International Airport Revenue	6.395%	1/1/40	425	555
Chicago IL Transit Authority Transfer Tax Receipts Revenue	6.899%	12/1/40	1,430	1,786
Chicago Transit Authority	6.899%	12/1/40	695	868
Commonwealth Financing Authority	4.144%	6/1/38	635	611
Dallas TX Area Rapid Transit Revenue	5.999%	12/1/44	750	978
Georgia Municipal Electric Power Authority Revenue	6.637%	4/1/57	1,296	1,596
Grand Parkway Transportation Corp. Texas System Toll Revenue	5.184%	10/1/42	1,015	1,192
Houston TX GO	6.290%	3/1/32	570	678
Illinois GO	5.100%	6/1/33	1,600	1,430
Illinois Toll Highway Authority Revenue	6.184%	1/1/34	750	942
<sup>8</sup> Kansas Development Finance Authority Revenue (Public Employees Retirement System)	5.501%	5/1/34	2,000	2,284
Los Angeles CA Community College District GO	6.750%	8/1/49	405	582
Los Angeles CA Unified School District GO	5.750%	7/1/34	1,400	1,726
Maryland Transportation Authority Facilities Projects Revenue	5.888%	7/1/43	545	680
Massachusetts School Building Authority Dedicated Sales Tax Revenue	5.715%	8/15/39	1,000	1,256
New Jersey Turnpike Authority Revenue	7.414%	1/1/40	410	591
New Jersey Turnpike Authority Revenue	7.102%	1/1/41	600	838
New York City NY Municipal Water Finance Authority Water & Sewer System Revenue	5.790%	6/15/41	115	127
New York City NY Municipal Water Finance Authority Water & Sewer System Revenue	5.882%	6/15/44	80	103
New York Metropolitan Transportation Authority Revenue	6.814%	11/15/40	150	200
New York Metropolitan Transportation Authority Revenue (Dedicated Tax Fund)	7.336%	11/15/39	325	478
New York Metropolitan Transportation Authority Revenue (Dedicated Tax Fund)	6.089%	11/15/40	445	564
North Texas Tollway Authority System Revenue	6.718%	1/1/49	1,555	2,172

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Oregon Department of Transportation Highway User Tax Revenue	5.834%	11/15/34	655	825
Oregon GO	5.902%	8/1/38	490	616
<sup>8</sup> Oregon School Boards Association GO	5.528%	6/30/28	2,000	2,338
Port Authority of New York & New Jersey Revenue	5.859%	12/1/24	325	390
Port Authority of New York & New Jersey Revenue	6.040%	12/1/29	265	332
Port Authority of New York & New Jersey Revenue	4.458%	10/1/62	1,300	1,304
Port Authority of New York & New Jersey Revenue	4.810%	10/15/65	640	684
San Antonio TX Electric & Gas Systems Revenue	5.985%	2/1/39	305	391
University of California	3.931%	5/15/45	570	564
University of California Regents Medical Center Revenue	6.548%	5/15/48	295	387
University of California Regents Medical Center Revenue	6.583%	5/15/49	900	1,175
University of California Revenue	4.601%	5/15/31	590	650
University of California Revenue	5.770%	5/15/43	1,010	1,235
University of California Revenue	4.765%	5/15/44	145	153
<b>Total Taxable Municipal Bonds (Cost \$35,995)</b>				<b>40,814</b>
<b>Temporary Cash Investments (2.9%)</b>				
<b>Repurchase Agreement (1.9%)</b>				
RBS Securities, Inc. (Dated 12/30/16, Repurchase Value \$47,903,000, collateralized by U.S. Treasury Note/Bond, 0.625%, 4/30/18, with a value of \$48,862,000)				
	0.470%	1/3/17	47,900	47,900
			Shares	
<b>Money Market Fund (0.6%)</b>				
<sup>9,10</sup> Vanguard Market Liquidity Fund	0.823%		168,023	16,804
			Face Amount (\$000)	
<b>Commercial Paper (0.4%)</b>				
<sup>11</sup> Apple Inc.	0.590%	1/19/17	3,000	2,999
<sup>11</sup> MetLife Short Term Funding LLC	0.700%	1/25/17	1,000	999
<sup>11</sup> Nationwide Building Society	0.800%	1/13/17	3,000	2,999
<sup>11</sup> Toyota Motor Credit Corp.	0.730%	2/6/17	3,500	3,497
				<b>10,494</b>
<b>Total Temporary Cash Investments (Cost \$75,199)</b>				<b>75,198</b>
<b>Total Investments (100.0%) (Cost \$2,118,162)</b>				<b>2,555,257</b>

	Amount (\$000)
<b>Other Assets and Liabilities (0.0%)</b>	
<b>Other Assets</b>	
Investment in Vanguard	188
Receivables for Investment Securities Sold	16,309
Receivables for Accrued Income	9,496
Receivables for Capital Shares Issued	566
Other Assets <sup>12</sup>	599
<b>Total Other Assets</b>	<b>27,158</b>
<b>Liabilities</b>	
Payables for Investment Securities Purchased	(3,727)
Collateral for Securities on Loan	(16,800)
Payables to Investment Advisor	(323)
Payables for Capital Shares Redeemed	(3,380)
Payables to Vanguard	(3,134)
Other Liabilities	(762)
<b>Total Liabilities</b>	<b>(28,126)</b>
<b>Net Assets (100%)</b>	
Applicable to 110,930,028 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)	2,554,289
<b>Net Asset Value Per Share</b>	<b>\$23.03</b>

## At December 31, 2016, net assets consisted of:

	Amount (\$000)
Paid-in Capital	1,959,596
Undistributed Net Investment Income	59,640
Accumulated Net Realized Gains	97,451
Unrealized Appreciation (Depreciation)	
Investment Securities	437,095
Futures Contracts	17
Forward Currency Contracts	512
Foreign Currencies	(22)
<b>Net Assets</b>	<b>2,554,289</b>

• See Note A in Notes to Financial Statements.

<sup>A</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$16,392,000.

\* Non-income-producing security.

1 The average or expected maturity is shorter than the final maturity shown because of the possibility of interim principal payments and prepayments or the possibility of the issue being called.

2 The issuer was placed under federal conservatorship in September 2008; since that time, its daily operations have been managed by the Federal Housing Finance Agency and it receives capital from the U.S. Treasury, as needed to maintain a positive net worth, in exchange for senior preferred stock.

3 Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be sold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2016, the aggregate value of these securities was \$108,543,000, representing 4.2% of net assets.

4 Adjustable-rate security.

5 Face amount denominated in Japanese yen.

6 Face amount denominated in Canadian dollars.

7 Face amount denominated in British pounds.

8 Scheduled principal and interest payments are guaranteed by AGM (Assured Guaranty Municipal Corporation).

9 Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

10 Includes \$16,800,000 of collateral received for securities on loan.

11 Security exempt from registration under Section 4(2) of the Securities Act of 1933. Such securities may be sold in transactions exempt from registration only to dealers in that program or other "accredited investors." At December 31, 2016, the aggregate value of these securities was \$10,494,000, representing 0.4% of net assets.

12 Cash of \$57,000 has been segregated as initial margin for open futures contracts.

ADR—American Depositary Receipt.

GO—General Obligation Bond.

See accompanying Notes, which are an integral part of the Financial Statements.

## Statement of Operations

	Year Ended December 31, 2016 (\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends <sup>1</sup>	42,614
Interest	26,097
Securities Lending—Net	362
Total Income	69,073
<b>Expenses</b>	
Investment Advisory Fees—Note B	
Basic Fee	1,307
Performance Adjustment	(136)
The Vanguard Group—Note C	
Management and Administrative	3,735
Marketing and Distribution	428
Custodian Fees	65
Auditing Fees	34
Shareholders' Reports	33
Trustees' Fees and Expenses	4
Total Expenses	5,470
<b>Net Investment Income</b>	<b>63,603</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold	99,198
Futures Contracts	(1,388)
Foreign Currencies and Forward Currency Contracts	302
<b>Realized Net Gain (Loss)</b>	<b>98,112</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	89,616
Futures Contracts	(17)
Foreign Currencies and Forward Currency Contracts	509
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>90,108</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>251,823</b>

<sup>1</sup> Dividends are net of foreign withholding taxes of \$565,000.

## Statement of Changes in Net Assets

	Year Ended December 31, 2016      2015 (\$000)      (\$000)	
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	63,603	59,143
Realized Net Gain (Loss)	98,112	103,957
Change in Unrealized Appreciation (Depreciation)	90,108	(161,796)
Net Increase (Decrease) in Net Assets Resulting from Operations	251,823	1,304
<b>Distributions</b>		
Net Investment Income	(59,178)	(55,202)
Realized Capital Gain <sup>1</sup>	(103,561)	(109,242)
Total Distributions	(162,739)	(164,444)
<b>Capital Share Transactions</b>		
Issued	224,117	206,845
Issued in Lieu of Cash Distributions	162,739	164,444
Redeemed	(233,312)	(230,337)
Net Increase (Decrease) from Capital Share Transactions	153,544	140,952
Total Increase (Decrease)	242,628	(22,188)
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>2,311,661</b>	<b>2,333,849</b>
<b>End of Period<sup>2</sup></b>	<b>2,554,289</b>	<b>2,311,661</b>

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$1,336,000 and \$5,133,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$59,640,000 and \$55,763,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$22.32</b>	<b>\$23.99</b>	<b>\$23.66</b>	<b>\$20.70</b>	<b>\$18.90</b>
<b>Investment Operations</b>					
Net Investment Income	.581	.576	.569	.540	.547
Net Realized and Unrealized Gain (Loss) on Investments	1.713	(.548)	1.613	3.450	1.800
Total from Investment Operations	2.294	.028	2.182	3.990	2.347
<b>Distributions</b>					
Dividends from Net Investment Income	(.576)	(.570)	(.555)	(.550)	(.547)
Distributions from Realized Capital Gains	(1.008)	(1.128)	(1.297)	(.480)	—
Total Distributions	(1.584)	(1.698)	(1.852)	(1.030)	(.547)
<b>Net Asset Value, End of Period</b>	<b>\$23.03</b>	<b>\$22.32</b>	<b>\$23.99</b>	<b>\$23.66</b>	<b>\$20.70</b>
<b>Total Return</b>	<b>11.01%</b>	<b>0.09%</b>	<b>9.84%</b>	<b>19.88%</b>	<b>12.56%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$2,554	\$2,312	\$2,334	\$2,089	\$1,691
Ratio of Total Expenses to Average Net Assets <sup>1</sup>	0.23%	0.23%	0.25%	0.27%	0.26%
Ratio of Net Investment Income to Average Net Assets	2.66%	2.53%	2.50%	2.52%	2.86%
Portfolio Turnover Rate <sup>2</sup>	33%	45%	70%	31%	24%

<sup>1</sup> Includes performance-based investment advisory fee increases (decreases) of (0.01%), 0.00%, 0.00%, 0.00%, and (0.01%).

<sup>2</sup> Includes 0%, 14%, 15%, 19%, and 18% attributable to mortgage-dollar-roll activity.

## Notes to Financial Statements

Vanguard Balanced Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts. Certain of the portfolio's investments are in corporate debt instruments; the issuers' abilities to meet their obligations may be affected by economic developments in their respective industries.

**A.** The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Bonds and temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services. Structured debt securities, including mortgages and asset-backed securities, are valued using the latest bid prices or using valuations based on a matrix system that considers such factors as issuer, tranche, nominal or option-adjusted spreads, weighted average coupon, weighted average maturity, credit enhancements, and collateral. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Securities for which market quotations are not readily available, or whose values have been affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued at their fair values calculated according to procedures adopted by the board of trustees. These procedures include obtaining quotations from an independent pricing service, monitoring news to identify significant market- or security-specific events, and evaluating changes in the values of foreign market proxies (for example, ADRs, futures contracts, or exchange-

traded funds), between the time the foreign markets close and the portfolio's pricing time. When fair-value pricing is employed, the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same securities.

2. Foreign Currency: Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates obtained from an independent third party as of the portfolio's pricing time on the valuation date. Realized gains (losses) and unrealized appreciation (depreciation) on investment securities include the effects of changes in exchange rates since the securities were purchased, combined with the effects of changes in security prices. Fluctuations in the value of other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains (losses) until the assets or liabilities are settled in cash, at which time they are recorded as realized foreign currency gains (losses).

3. Futures Contracts: The portfolio uses futures contracts to invest in fixed income asset classes with greater efficiency and lower cost than is possible through direct investment, to add value when these instruments are attractively priced, or to adjust sensitivity to changes in interest rates. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of bonds held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract.

Futures contracts are valued at their quoted daily settlement prices. The aggregate settlement values of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2016, the portfolio's average investments in long and short futures contracts represented less than 1% and 1% of net assets, respectively, based on the average of aggregate settlement values at each quarter-end during the period.

4. Forward Currency Contracts: The portfolio enters into forward currency contracts to protect the value of securities and related receivables and payables against changes in future foreign exchange rates. The portfolio's risks in using these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the ability of the counterparties to fulfill their obligations under the contracts. The portfolio mitigates its counterparty risk by entering into forward currency contracts only with a diverse group of prequalified counterparties, monitoring their financial strength, entering into master netting arrangements with its counterparties, and requiring its counterparties to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or rehypothecated. The master netting arrangements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate the forward currency contracts, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements. The forward currency contracts contain provisions whereby a counterparty may terminate open contracts if the portfolio's net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any assets pledged as collateral for open contracts are noted in the Statement of Net Assets. The value of collateral received or pledged is compared daily to the value of the forward currency contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

Forward currency contracts are valued at their quoted daily prices obtained from an independent third party, adjusted for currency risk based on the expiration date of each contract. The notional amounts of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized forward currency contract gains (losses).

During the year ended December 31, 2016, the portfolio's average investment in forward currency contracts represented less than 1% of net assets, based on the average of notional amounts at each quarter-end during the period.



5. To Be Announced (TBA) Transactions: A TBA transaction is an agreement to buy or sell mortgage-backed securities with agreed-upon characteristics (face amount, coupon, maturity) for settlement at a future date. The portfolio may be a seller of TBA transactions to reduce its exposure to the mortgage-backed securities market or in order to sell mortgage-backed securities it owns under delayed-delivery arrangements. When the portfolio is a buyer of TBA transactions, it maintains cash or short-term investments in an amount sufficient to meet the purchase price at the settlement date of the TBA transaction. The primary risk associated with TBA transactions is that a counterparty may default on its obligations. The portfolio mitigates its counterparty risk by, among other things, performing a credit analysis of counterparties, allocating transactions among numerous counterparties, and monitoring its exposure to each counterparty. The portfolio may also enter into a Master Securities Forward Transaction Agreement (MSFTA) with certain counterparties and require them to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or rehypothecated. Under an MSFTA, upon a counterparty default (including bankruptcy), the portfolio may terminate any TBA transactions with that counterparty, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements.

6. Mortgage Dollar Rolls: The portfolio enters into mortgage-dollar-roll transactions, in which the portfolio sells mortgage-backed securities to a dealer and simultaneously agrees to purchase similar securities in the future at a predetermined price. The proceeds of the securities sold in mortgage-dollar-roll transactions are typically invested in high-quality short-term fixed income securities. The portfolio forgoes principal and interest paid on the securities sold, and is compensated by interest earned on the proceeds of the sale and by a lower price on the securities to be repurchased. The portfolio has also entered into mortgage-dollar-roll transactions in which the portfolio buys mortgage-backed securities from a dealer pursuant to a TBA transaction and simultaneously agrees to sell similar securities in the future at a predetermined price. The securities bought in mortgage-dollar-roll transactions are used to cover an open TBA sell position. The portfolio continues to earn interest on mortgage-backed security pools already held and receives a lower price on the securities to be sold in the future. The portfolio accounts for mortgage-dollar-roll transactions as purchases and sales; as such, these transactions may increase the portfolio's portfolio turnover rate. Amounts to be received or paid in connection with open mortgage dollar rolls are included in Receivables for Investment Securities Sold or Payables for Investment Securities Purchased in the Statement of Net Assets.

7. Repurchase Agreements: The portfolio enters into repurchase agreements with institutional counterparties. Securities pledged as collateral to the portfolio under repurchase agreements are held by a custodian bank until the agreements mature, and in the absence of a default, such collateral cannot be repledged, resold, or rehypothecated. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal. The portfolio further mitigates its counterparty risk by entering into repurchase agreements only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master repurchase agreements with its counterparties. The master repurchase agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any repurchase agreements with that counterparty, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio. Such action may be subject to legal proceedings, which may delay or limit the disposition of collateral.

8. Federal Income Taxes: The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

9. Distributions: Distributions to shareholders are recorded on the ex-dividend date.

10. Securities Lending: To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net

amount owed, and sell or retain the collateral up to the net amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the absence of a default the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

11. Credit Facility: The portfolio and certain other funds managed by The Vanguard Group (“Vanguard”) participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio’s regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio’s board of trustees and included in Management and Administrative expenses on the portfolio’s Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.

12. Other: Dividend income is recorded on the ex-dividend date. Interest income is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. Wellington Management Company LLP provides investment advisory services to the portfolio for a fee calculated at an annual percentage rate of average net assets. The basic fee is subject to quarterly adjustments based on the portfolio’s performance relative to the combined index comprising the S&P 500 Index and the Bloomberg Barclays U.S. Credit A or Better Bond Index for the preceding three years. For the year ended December 31, 2016, the investment advisory fee represented an effective annual basic rate of 0.06% of the portfolio’s average net assets before a decrease of \$136,000 (0.01%) based on performance.

C. In accordance with the terms of a Funds’ Service Agreement (the “FSA”) between Vanguard and the portfolio, Vanguard furnishes to the portfolio corporate management, administrative, marketing, distribution, and cash management services at Vanguard’s cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio’s liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$188,000, representing 0.01% of the portfolio’s net assets and 0.08% of Vanguard’s capitalization. The portfolio’s trustees and officers are also directors and employees, respectively, of Vanguard.

D. Various inputs may be used to determine the value of the portfolio’s investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio’s own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,492,854	175,025	—
U.S. Government and Agency Obligations	—	148,231	—
Asset-Backed/Commercial Mortgage-Backed Securities	—	24,739	—
Corporate Bonds	—	553,179	—
Sovereign Bonds	—	45,217	—
Taxable Municipal Bonds	—	40,814	—
Temporary Cash Investments	16,804	58,394	—
Futures Contracts—Assets <sup>1</sup>	23	—	—
Futures Contracts—Liabilities <sup>1</sup>	(24)	—	—
Forward Currency Contracts—Assets	—	519	—
Forward Currency Contracts—Liabilities	—	(7)	—
Total	1,509,657	1,046,111	—

<sup>1</sup> Represents variation margin on the last day of the reporting period.

E. At December 31, 2016, the fair values of derivatives were reflected in the Statement of Net Assets as follows:

Statement of Net Assets Caption	Interest Rate Contracts (\$000)	Currency Contracts (\$000)	Total (\$000)
Other Assets	23	519	542
Other Liabilities	(24)	(7)	(31)

Realized net gain (loss) and the change in unrealized appreciation (depreciation) on derivatives for the year ended December 31, 2016, were:

	Interest Rate Contracts (\$000)	Currency Contracts (\$000)	Total (\$000)
Realized Net Gain (Loss) on Derivatives			
Futures Contracts	(1,388)	—	(1,388)
Forward Currency Contracts	—	442	442
Realized Net Gain (Loss) on Derivatives	(1,388)	442	(946)

Change in Unrealized Appreciation (Depreciation) on Derivatives

	Interest Rate Contracts (\$000)	Currency Contracts (\$000)	Total (\$000)
Futures Contracts	(17)	—	(17)
Forward Currency Contracts	—	512	512
Change in Unrealized Appreciation (Depreciation) on Derivatives	(17)	512	495

At December 31, 2016, the aggregate settlement value of open futures contracts and the related unrealized appreciation (depreciation) were:

				(\$000)
Futures Contracts	Expiration	Number of Long (Short) Contracts	Aggregate Settlement Value Long (Short)	Unrealized Appreciation (Depreciation)
5-Year U.S. Treasury Note	March 2017	92	10,825	(15)
10-Year U.S. Treasury Note	March 2017	(69)	(8,575)	42
Ultra Long U.S. Treasury Bond	March 2017	8	1,282	(10)
				17

Unrealized appreciation (depreciation) on open futures contracts is required to be treated as realized gain (loss) for tax purposes.

At December 31, 2016, the portfolio had open forward currency contracts to receive and deliver currencies as follows. Unrealized appreciation (depreciation) on open forward currency contracts is treated as realized gain (loss) for tax purposes.

Counterparty	Contract Settlement Date	Contract Amount (000)				Unrealized Appreciation (Depreciation) (\$000)
			Receive		Deliver	
J.P. Morgan Securities, Inc.	2/27/17	USD	1,962	JPY	220,000	74
Bank of America N.A.	2/13/17	USD	1,953	JPY	210,000	152
Citibank, N.A.	3/21/17	USD	1,597	JPY	180,000	51
J.P. Morgan Securities, Inc.	3/6/17	USD	1,344	JPY	150,000	56
Citibank, N.A.	2/3/17	USD	1,494	CAD	2,000	3
Goldman Sachs International	1/9/17	USD	2,017	GBP	1,600	44
J.P. Morgan Securities, Inc.	1/3/17	USD	2,081	GBP	1,600	109
Citibank, N.A.	1/23/17	USD	1,473	GBP	1,200	(7)
Goldman Sachs International	2/6/17	USD	747	CAD	1,000	2
Goldman Sachs International	2/10/17	USD	747	CAD	1,000	2
J.P. Morgan Securities, Inc.	1/24/17	USD	754	CAD	1,000	9
J.P. Morgan Securities, Inc.	2/1/17	USD	762	CAD	1,000	17
						512

CAD—Canadian dollar.

GBP—British pound.

JPY—Japanese yen.

USD—U.S. dollar.

F. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

During the year ended December 31, 2016, the portfolio realized net foreign currency losses of \$548,000, which decreased distributable net income for tax purposes; accordingly, such losses have been reclassified from accumulated net realized gains to undistributed net investment income.

For tax purposes, at December 31, 2016, the portfolio had \$70,817,000 of ordinary income and \$90,513,000 of long-term capital gains available for distribution.

At December 31, 2016, the cost of investment securities for tax purposes was \$2,118,964,000.

Net unrealized appreciation of investment securities for tax purposes was \$436,293,000, consisting of unrealized gains of \$462,068,000 on securities that had risen in value since their purchase and \$25,775,000 in unrealized losses on securities that had fallen in value since their purchase.

G. During the year ended December 31, 2016, the portfolio purchased \$517,716,000 of investment securities and sold \$490,564,000 of investment securities, other than U.S. government securities and temporary cash investments. Purchases and sales of U.S. government securities were \$271,593,000 and \$287,492,000, respectively.

H. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016 Shares (000)	2015 Shares (000)
Issued	10,171	9,057
Issued in Lieu of Cash Distributions	7,798	7,341
Redeemed	(10,616)	(10,090)
Net Increase (Decrease) in Shares Outstanding	7,353	6,308

At December 31, 2016, one shareholder, an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders, was the record or beneficial owner of 77% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

I. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of  
Balanced Portfolio:

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Balanced Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

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### Special 2016 tax information (unaudited) for corporate shareholders only for Vanguard Balanced Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2016, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$102,226,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 46.7% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

# About Your Portfolio’s Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio’s gross income, directly reduce the investment return of the portfolio.

A portfolio’s expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The table below illustrates your portfolio’s costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The “Ending Account Value” shown is derived from the portfolio’s actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading “Expenses Paid During Period.”

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio’s costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio’s actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio’s costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio’s expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio’s expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

## Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
Balanced Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,055.86	\$1.19
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.98	1.17

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio’s annualized six-month expense ratio for that period is 0.23%. The dollar amounts shown as “Expenses Paid” are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

Vanguard Balanced Portfolio is not sponsored, endorsed, issued, sold or promoted by Barclays Risk Analytics and Index Solutions Limited or any of its affiliates ("Barclays"). Barclays makes no representation or warranty, express or implied, to the owners or purchasers of Vanguard Balanced Portfolio or any member of the public regarding the advisability of investing in securities generally or in Vanguard Balanced Portfolio particularly or the ability of the Barclays Index to track general bond market performance. Barclays has not passed on the legality or suitability of Vanguard Balanced Portfolio with respect to any person or entity. Barclays' only relationship to Vanguard and Vanguard Balanced Portfolio is the licensing of the Barclays Index which is determined, composed and calculated by Barclays without regard to Vanguard or Vanguard Balanced Portfolio or any owners or purchasers of Vanguard Balanced Portfolio. Barclays has no obligation to take the needs of Vanguard, Vanguard Balanced Portfolio or the owners of Vanguard Balanced Portfolio into consideration in determining, composing or calculating the Barclays Index. Barclays is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of Vanguard Balanced Portfolio to be issued. Barclays has no obligation or liability in connection with the administration, marketing or trading of Vanguard Balanced Portfolio.

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

**Fund Information** > 800-662-7447

**Annuity and Insurance Services** > 800-522-5555

**Institutional Investor Services** > 800-523-1036

**Text Telephone for People**

**Who Are Deaf or Hard of Hearing** > 800-749-7273

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You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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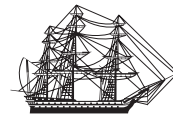
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**Vanguard®**



**Annual Report** | December 31, 2016

# Vanguard Variable Insurance Fund

Equity Index Portfolio

# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

- Goals.** Create clear, appropriate investment goals.
- Balance.** Develop a suitable asset allocation using broadly diversified funds.
- Cost.** Minimize cost.
- Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

**Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.**

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### **Expect stabilization, not stagnation**

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### **Focus on keys to investment success**

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017

## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® Equity Index Portfolio

U.S. stocks posted solid returns in 2016 as the economy continued to slowly grow, corporate earnings improved, and investors were optimistic later in the year that President-elect Trump's policies would result in further economic expansion.

For the year ended December 31, 2016, Vanguard Equity Index Portfolio returned 11.81%, in line with its target index, the Standard & Poor's 500 Index, and nearly 2 percentage points higher than the average return of peer funds.

The table below shows the returns of your portfolio and its comparative standards for the year. For additional perspective, we also present their annualized returns for the past ten years.

Please note that the portfolio returns in Vanguard Variable Insurance Fund are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

## A wide variety of sectors registered robust returns

The Equity Index Portfolio is composed of 500 of the largest U.S. companies, encompassing about three-quarters of the U.S. stock market's value. Stocks of every style and from every industry sector are represented. Over the year, small-capitalization stocks outpaced mid- and large-caps, and value stocks outperformed their growth counterparts.

Ten of the 11 industry sectors recorded gains, with seven over 10% and three of those over 20%. Information technology stocks, the portfolio's largest sector, climbed about 14% and added most to return. Communications equipment, internet, IT services, semiconductors, software, and hardware stocks all played a role in the sector's strong showing.

Financial stocks also lifted the portfolio as the anticipation of short-term interest rate hikes by the Federal Reserve, the improving economy, and the rising stock market contributed to the sector's overall

strength. Banks, asset managers, consumer finance firms, and insurance companies enjoyed significant returns.

The rebound in oil prices helped the energy sector to returns of more than 27%. Industrials, materials, utilities, and telecommunication services stocks also produced strong results. Returns were more modest for consumer discretionary, consumer staples, and real estate companies.

Health care stocks, the only negative performer, stumbled as observers voiced concerns about rising health care costs and investors mulled the possibility that increased government regulation of prices could dim profits. Biotechnology companies, and to a lesser degree pharmaceuticals, suffered the most.

## Tight tracking prevailed during the previous decade

For the decade ended December 31, 2016, the Equity Index Portfolio recorded an average annual return of 6.84%. This result tightly tracked the portfolio's target index, which has no transaction costs or operating expenses, and exceeded the average annual return of its peers by about 1 percentage point.

First and foremost, the portfolio's objective is to track the index closely, and its success in doing so is a testament to the expertise and experience of the portfolio's advisor, Vanguard Equity Index Group. This group of professionals uses well-honed portfolio construction and trading methodologies that have allowed Vanguard to provide effective index tracking regardless of the market's volatility or direction. The portfolio has also benefited from its low costs, which help close the gap between the index's results and your returns.

### Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016 Average Annual Return
Vanguard Equity Index Portfolio	11.81%	6.84%
S&P 500 Index	11.96	6.95
Variable Insurance Large-Cap Core Funds Average <sup>1</sup>	9.91	5.77

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>2</sup>	Variable Insurance Large-Cap Core Funds Average <sup>3</sup>
Equity Index Portfolio	0.15%	0.40%

<sup>1</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>2</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the portfolio's expense ratio was 0.15%.

<sup>3</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.



## Portfolio Profile

As of December 31, 2016

### Portfolio Characteristics

	Portfolio	Target Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Stocks	505	505	3,833
Median Market Cap	\$84.8B	\$84.8B	\$54.1B
Price/Earnings Ratio	23.0x	23.0x	24.4x
Price/Book Ratio	2.9x	2.9x	2.8x
Yield <sup>3</sup>	2.1%	2.1%	2.0%
Return on Equity	17.7%	17.4%	16.5%
Earnings Growth Rate	7.8%	8.1%	8.2%
Foreign Holdings	0.0%	0.0%	0.0%
Turnover Rate	7%	—	—
Expense Ratio <sup>4</sup>	0.15%	—	—
Short-Term Reserves	-0.1%	—	—

### Volatility Measures

	Portfolio Versus Target Index <sup>1</sup>	Portfolio Versus Broad Index <sup>2</sup>
R-Squared	1.00	0.99
Beta	1.00	0.97

### Sector Diversification (% of equity exposure)

	Portfolio	Target Index <sup>1</sup>	Broad Index <sup>2</sup>
Consumer Discretionary	12.0%	12.0%	12.5%
Consumer Staples	9.4	9.4	8.3
Energy	7.6	7.5	7.0
Financials	14.8	14.8	15.4
Health Care	13.6	13.6	13.0
Industrials	10.3	10.3	10.8
Information Technology	20.7	20.8	20.0
Materials	2.8	2.8	3.3
Real Estate	2.9	2.9	4.1
Telecommunication Services	2.7	2.7	2.4
Utilities	3.2	3.2	3.2

### Ten Largest Holdings<sup>5</sup> (% of total net assets)

Apple Inc.	Technology Hardware, Storage & Peripherals	3.2%
Microsoft Corp.	Systems Software	2.5
Alphabet Inc.	Internet Software & Services	2.4
Exxon Mobil Corp.	Integrated Oil & Gas	1.9
Johnson & Johnson	Pharmaceuticals	1.6
Berkshire Hathaway Inc.	Multi-Sector Holdings	1.6
JPMorgan Chase & Co.	Diversified Banks	1.6
Amazon.com Inc.	Internet & Direct Marketing Retail	1.5
General Electric Co.	Industrial Conglomerates	1.4
Facebook Inc.	Internet Software & Services	1.4
Top Ten		19.1%

### Investment Focus

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds) its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Equity Exposure.** A measure that reflects a portfolio's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> S&P 500 Index.

<sup>2</sup> Dow Jones U.S. Total Stock Market Float Adjusted Index.

<sup>3</sup> 30-day SEC yield for the portfolio; annualized dividend yield for the indexes.

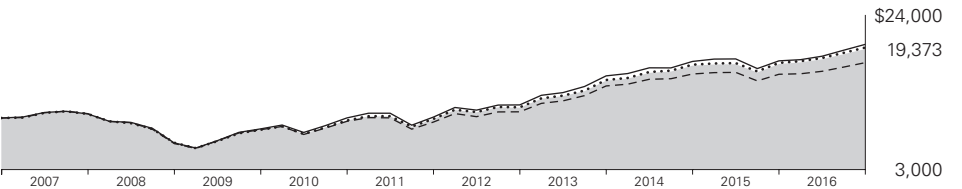
<sup>4</sup> The expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the expense ratio was 0.15%.

<sup>5</sup> The holdings listed exclude any temporary cash investments and equity index products.

# Performance Summary

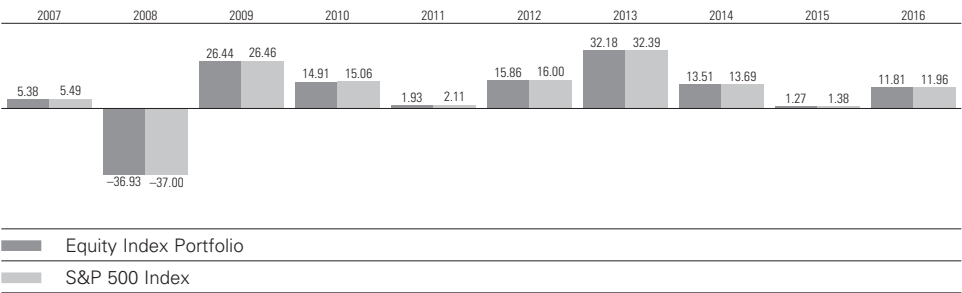
All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

Cumulative Performance: December 31, 2006–December 31, 2016  
Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Equity Index Portfolio	11.81 %	14.50%	6.84%	\$19,373
S&P 500 Index	11.96	14.66	6.95	19,572
Variable Insurance Large-Cap Core Funds Average <sup>1</sup>	9.91	13.15	5.77	17,520
Dow Jones U.S. Total Stock Market Float Adjusted Index	12.62	14.59	7.18	20,003

Fiscal Year Total Returns (%): December 31, 2006–December 31, 2016



<sup>1</sup> Derived from data provided by Lipper, a Thomson Reuters Company.  
See Financial Highlights for dividend and capital gains information.

## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at [sec.gov](http://sec.gov). Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (99.7%)<sup>1</sup></b>								
<b>Consumer Discretionary (12.0%)</b>								
* Amazon.com Inc.	88,342	66,245	DR Horton Inc.	76,027	2,078	General Mills Inc.	132,714	8,198
Comcast Corp. Class A	533,908	36,866	Interpublic Group of Cos. Inc.	88,667	2,076	Kroger Co.	210,838	7,276
Home Depot Inc.	272,911	36,592	Darden Restaurants Inc.	27,449	1,996	Sysco Corp.	112,308	6,218
Walt Disney Co.	327,935	34,177	Hasbro Inc.	25,190	1,960	Constellation Brands Inc. Class A	39,805	6,103
McDonald's Corp.	186,091	22,651	Kohl's Corp.	39,671	1,959	Archer-Daniels-Midland Co.	129,312	5,903
Starbucks Corp.	326,002	18,100	Lennar Corp. Class A	43,945	1,887	Kellogg Co.	56,618	4,173
Time Warner Inc.	172,751	16,676	Wyndham Worldwide Corp.	24,276	1,854	* Monster Beverage Corp.	90,866	4,029
* Priceline Group Inc.	11,059	16,213	Tiffany & Co.	23,707	1,836	Tyson Foods Inc. Class A	64,832	3,999
NIKE Inc. Class B	299,278	15,212	Hanesbrands Inc.	84,735	1,828	Molson Coors Brewing Co. Class B	41,060	3,996
* Charter Communications Inc. Class A	48,504	13,965	Goodyear Tire & Rubber Co.	57,984	1,790	Estee Lauder Cos. Inc. Class A	49,868	3,814
Lowe's Cos. Inc.	194,901	13,861	BorgWarner Inc.	44,550	1,757	Dr Pepper Snapple Group Inc.	41,242	3,739
* Netflix Inc.	96,141	11,902	Harman International Industries Inc.	15,652	1,740	Conagra Brands Inc.	92,871	3,673
TJX Cos. Inc.	145,925	10,963	PVH Corp.	17,705	1,598	Clorox Co.	28,887	3,467
General Motors Co.	310,727	10,826	* Michael Kors Holdings Ltd.	36,659	1,576	JM Smucker Co.	26,095	3,342
Ford Motor Co.	874,181	10,604	Scripps Networks Interactive Inc. Class A	21,871	1,561	Hershey Co.	31,290	3,236
Target Corp.	125,904	9,094	Wynn Resorts Ltd.	17,555	1,519	Mead Johnson Nutrition Co.	41,181	2,914
Twenty-First Century Fox Inc. Class A	236,371	6,628	Signet Jewelers Ltd.	15,420	1,453	Campbell Soup Co.	43,016	2,601
Marriott International Inc. Class A	71,721	5,930	Leggett & Platt Inc.	29,544	1,444	Church & Dwight Co. Inc.	57,988	2,562
* O'Reilly Automotive Inc.	21,097	5,874	Bed Bath & Beyond Inc.	34,108	1,386	McCormick & Co. Inc.	25,665	2,395
Ross Stores Inc.	88,852	5,829	Staples Inc.	147,351	1,333	Whole Foods Market Inc.	71,340	2,194
CBS Corp. Class B	87,481	5,566	* Discovery Communications Inc.	49,218	1,318	Hormel Foods Corp.	60,520	2,107
* AutoZone Inc.	6,473	5,112	Garmin Ltd.	26,415	1,281	Coty Inc. Class A	104,384	1,911
Yum! Brands Inc.	78,145	4,949	Nordstrom Inc.	26,646	1,277	Brown-Forman Corp. Class B	40,350	1,813
Carnival Corp.	93,525	4,869	News Corp. Class A	110,723	1,269			
Newell Brands Inc.	108,135	4,828	PulteGroup Inc.	66,425	1,221			<b>404,334</b>
Omnicom Group Inc.	52,615	4,478	* ^ Under Armour Inc. Class A	40,567	1,178	<b>Energy (7.5%)</b>		
Dollar General Corp.	56,688	4,199	* TripAdvisor Inc.	25,217	1,169	Exxon Mobil Corp.	928,827	83,836
Delphi Automotive plc	60,719	4,089	Ralph Lauren Corp. Class A	12,932	1,168	Chevron Corp.	422,861	49,771
* Dollar Tree Inc.	52,887	4,082	Gap Inc.	50,209	1,127	Schlumberger Ltd.	311,675	26,165
VF Corp.	73,840	3,939	H&R Block Inc.	46,318	1,065	ConocoPhillips	277,587	13,918
L Brands Inc.	53,489	3,522	TEGNA Inc.	49,632	1,062	EOG Resources Inc.	129,182	13,060
* Ulta Salon Cosmetics & Fragrance Inc.	13,133	3,348	* Under Armour Inc.	40,752	1,026	Occidental Petroleum Corp.	171,245	12,198
Genuine Parts Co.	33,218	3,174	* Discovery Communications Inc. Class A	34,818	954	Halliburton Co.	193,670	10,476
Royal Caribbean Cruises Ltd.	37,392	3,068	* AutoNation Inc.	15,181	739	Kinder Morgan Inc.	430,084	8,907
Whirlpool Corp.	16,815	3,056	* Urban Outfitters Inc.	19,709	561	Anadarko Petroleum Corp.	125,209	8,731
Expedia Inc.	26,917	3,049				Phillips 66	99,240	8,575
Twenty-First Century Fox Inc.	109,157	2,974			<b>519,272</b>	Valero Energy Corp.	101,435	6,930
* Mohawk Industries Inc.	14,148	2,825	<b>Consumer Staples (9.3%)</b>			Pioneer Natural Resources Co.	37,947	6,833
Advance Auto Parts Inc.	16,476	2,786	Procter & Gamble Co.	599,449	50,402	Spectra Energy Corp.	157,133	6,457
* CarMax Inc.	42,687	2,749	Coca-Cola Co.	869,487	36,049	Baker Hughes Inc.	94,785	6,158
Viacom Inc. Class B	77,826	2,732	PepsiCo Inc.	321,300	33,618	Marathon Petroleum Corp.	118,304	5,957
Best Buy Co. Inc.	61,591	2,628	Philip Morris International Inc.	347,500	31,793	Apache Corp.	84,989	5,394
Macy's Inc.	68,223	2,443	Altria Group Inc.	436,875	29,541	Devon Energy Corp.	117,323	5,358
* Chipotle Mexican Grill Inc. Class A	6,436	2,428	Wal-Mart Stores Inc.	337,329	23,316	Williams Cos. Inc.	153,131	4,769
Harley-Davidson Inc.	39,536	2,307	CVS Health Corp.	238,861	18,849	* Concho Resources Inc.	32,618	4,325
Tractor Supply Co.	29,546	2,240	Walgreens Boots Alliance Inc.	191,735	15,868	Hess Corp.	60,043	3,740
Coach Inc.	62,861	2,201	Costco Wholesale Corp.	97,972	15,686	Noble Energy Inc.	95,786	3,646
Foot Locker Inc.	30,378	2,153	Mondelez International Inc. Class A	345,655	15,323	Marathon Oil Corp.	189,783	3,285
* LKQ Corp.	68,918	2,112	Colgate-Palmolive Co.	199,172	13,034	National Oilwell Varco Inc.	84,222	3,153
Mattel Inc.	76,658	2,112	Kraft Heinz Co.	133,620	11,668	Cimarex Energy Co.	21,306	2,895
			Reynolds American Inc.	185,256	10,382	ONEOK Inc.	47,212	2,710
			Kimberly-Clark Corp.	80,112	9,142	EQT Corp.	38,557	2,522
						Cabot Oil & Gas Corp.	104,224	2,435
						Tesoro Corp.	26,263	2,297

## Vanguard Equity Index Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
Helmerich & Payne Inc.	24,328	1,883	Cincinnati Financial Corp.	33,615	2,546	* Hologic Inc.	62,369	2,502
* Newfield Exploration Co.	43,938	1,779	Unum Group	51,923	2,281	* Mettler-Toledo International Inc.	5,858	2,452
* FMC Technologies Inc.	49,910	1,773	XL Group Ltd.	60,843	2,267	* Waters Corp.	18,107	2,433
Range Resources Corp.	41,581	1,429	* E*TRADE Financial Corp.	61,351	2,126	* DaVita Inc.	35,204	2,260
* Transocean Ltd.	86,058	1,269	Arthur J Gallagher & Co.	39,874	2,072	* Centene Corp.	38,303	2,164
* Chesapeake Energy Corp.	171,143	1,201	Zions Bancorporation	45,395	1,954	Universal Health Services Inc. Class B	20,152	2,144
* Southwestern Energy Co.	109,175	1,181	Torchmark Corp.	24,634	1,817	Cooper Cos. Inc.	10,907	1,908
Murphy Oil Corp.	36,637	1,141	* Affiliated Managers Group Inc.	12,308	1,788	* Varian Medical Systems Inc.	20,872	1,874
		<b>326,157</b>	Leucadia National Corp.	74,314	1,728	* Envision Healthcare Corp.	25,993	1,645
<b>Financials (14.8%)</b>			Nasdaq Inc.	25,217	1,693	PerkinElmer Inc.	24,856	1,296
JPMorgan Chase & Co.	801,532	69,164	People's United Financial Inc.	71,626	1,387	* Mallinckrodt plc	23,761	1,184
* Berkshire Hathaway Inc. Class B	393,863	64,192	Assurant Inc.	12,587	1,169	Patterson Cos. Inc.	19,000	780
Wells Fargo & Co.	1,012,460	55,797	Navient Corp.	67,635	1,111	* Endo International plc	43,812	722
Bank of America Corp.	2,263,346	50,020			<b>639,141</b>			<b>588,313</b>
Citigroup Inc.	638,327	37,936	<b>Health Care (13.6%)</b>			<b>Industrials (10.2%)</b>		
Goldman Sachs Group Inc.	82,836	19,835	Johnson & Johnson	609,350	70,203	General Electric Co.	1,981,442	62,614
US Bancorp	357,882	18,384	Pfizer Inc.	1,359,170	44,146	3M Co.	134,737	24,060
American International Group Inc.	218,560	14,274	Merck & Co. Inc.	617,561	36,356	Boeing Co.	128,556	20,014
Chubb Ltd.	104,232	13,771	UnitedHealth Group Inc.	213,200	34,121	Honeywell International Inc.	170,723	19,778
Morgan Stanley	323,016	13,647	Amgen Inc.	166,646	24,365	Union Pacific Corp.	184,666	19,146
MetLife Inc.	246,268	13,271	AbbVie Inc.	364,074	22,798	United Technologies Corp.	171,538	18,804
American Express Co.	172,290	12,763	Medtronic plc	307,547	21,907	United Parcel Service Inc. Class B	154,495	17,711
PNC Financial Services Group Inc.	108,996	12,748	Bristol-Myers Squibb Co.	374,396	21,880	Lockheed Martin Corp.	56,436	14,106
Bank of New York Mellon Corp.	236,868	11,223	Gilead Sciences Inc.	295,138	21,135	Caterpillar Inc.	131,133	12,161
Charles Schwab Corp.	270,261	10,667	* Celgene Corp.	173,680	20,103	General Dynamics Corp.	64,132	11,073
BlackRock Inc.	27,228	10,361	* Allergan plc	84,029	17,647	FedEx Corp.	54,655	10,177
Prudential Financial Inc.	96,365	10,028	Eli Lilly & Co.	217,609	16,005	Raytheon Co.	65,610	9,317
Capital One Financial Corp.	108,028	9,424	* Biogen Inc.	48,678	13,804	Northrop Grumman Corp.	39,487	9,184
CME Group Inc.	75,835	8,748	Abbott Laboratories	329,830	12,669	Illinois Tool Works Inc.	70,810	8,671
BB&T Corp.	181,790	8,548	Thermo Fisher Scientific Inc.	88,539	12,493	Johnson Controls International plc	210,132	8,655
Travelers Cos. Inc.	63,651	7,792	Danaher Corp.	136,392	10,617	Delta Air Lines Inc.	164,932	8,113
Marsh & McLennan Cos. Inc.	115,171	7,784	Aetna Inc.	78,686	9,758	Emerson Electric Co.	144,010	8,029
Intercontinental Exchange Inc.	133,425	7,528	* Express Scripts Holding Co.	138,110	9,501	CSX Corp.	210,249	7,554
Aon plc	58,986	6,579	Anthem Inc.	58,858	8,462	Norfolk Southern Corp.	65,261	7,053
Synchrony Financial	176,039	6,385	Stryker Corp.	69,688	8,349	Southwest Airlines Co.	137,789	6,867
Discover Financial Services	88,343	6,369	Becton Dickinson and Co.	47,447	7,855	Eaton Corp. plc	101,077	6,781
Aflac Inc.	91,464	6,366	Cigna Corp.	57,509	7,671	Deere & Co.	64,791	6,676
State Street Corp.	81,500	6,334	McKesson Corp.	50,674	7,117	Waste Management Inc.	91,135	6,462
S&P Global Inc.	58,045	6,242	Humana Inc.	33,404	6,815	American Airlines Group Inc.	115,608	5,398
Allstate Corp.	82,584	6,121	* Boston Scientific Corp.	305,062	6,598	PACCAR Inc.	78,530	5,018
SunTrust Banks Inc.	109,531	6,008	* Regeneron Pharmaceuticals Inc.	16,933	6,216	Cummins Inc.	34,484	4,713
M&T Bank Corp.	34,859	5,453	* Alexion Pharmaceuticals Inc.	50,303	6,155	* United Continental Holdings Inc.	64,405	4,694
* Berkshire Hathaway Inc. Class A	21	5,127	Zoetis Inc.	110,671	5,924	Ingersoll-Rand plc	57,879	4,343
Progressive Corp.	129,579	4,600	* Intuitive Surgical Inc.	8,652	5,487	Parker-Hannifin Corp.	29,812	4,174
Fifth Third Bancorp	168,614	4,548	Cardinal Health Inc.	71,769	5,165	Roper Technologies Inc.	22,757	4,166
KeyCorp	240,882	4,401	St. Jude Medical Inc.	64,079	5,138	Stanley Black & Decker Inc.	33,827	3,880
Northern Trust Corp.	47,747	4,252	Baxter International Inc.	109,693	4,864	Rockwell Automation Inc.	28,756	3,865
T. Rowe Price Group Inc.	54,339	4,090	* HCA Holdings Inc.	65,680	4,862	Fortive Corp.	67,446	3,617
Citizens Financial Group Inc.	114,215	4,069	Zimmer Biomet Holdings Inc.	44,915	4,635	Equifax Inc.	26,920	3,183
Hartford Financial Services Group Inc.	84,264	4,015	* Edwards Lifesciences Corp.	47,922	4,490	Nielsen Holdings plc	74,845	3,140
Regions Financial Corp.	274,753	3,945	* Illumina Inc.	32,962	4,220	Fastenal Co.	64,468	3,029
Ameriprise Financial Inc.	35,227	3,908	* Vertex Pharmaceuticals Inc.	55,585	4,095	Republic Services Inc. Class A	52,002	2,967
Willis Towers Watson plc	28,931	3,538	* Mylan NV	103,132	3,934	Textron Inc.	60,590	2,942
Moody's Corp.	37,240	3,511	CR Bard Inc.	16,374	3,679	WW Grainger Inc.	12,300	2,857
Principal Financial Group Inc.	59,664	3,452	Agilent Technologies Inc.	72,731	3,314	* Verisk Analytics Inc. Class A	34,772	2,822
Lincoln National Corp.	50,950	3,376	* Cerner Corp.	67,676	3,206	TransDigm Group Inc.	11,238	2,798
Huntington Bancshares Inc.	243,045	3,213	Dentsply Sirona Inc.	52,004	3,002	Rockwell Collins Inc.	28,961	2,686
Franklin Resources Inc.	78,324	3,100	* Laboratory Corp. of America Holdings	23,078	2,963	L-3 Communications Holdings Inc.	17,381	2,644
Loews Corp.	61,927	2,900	AmerisourceBergen Corp. Class A	37,506	2,933	Dover Corp.	34,654	2,597
Invesco Ltd.	91,554	2,778	Quest Diagnostics Inc.	30,980	2,847			
Comerica Inc.	38,428	2,617	* Henry Schein Inc.	18,250	2,769			
			Perrigo Co. plc	32,154	2,676			

## Vanguard Equity Index Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
AMETEK Inc.	51,404	2,498	* Fiserv Inc.	48,430	5,147	<b>Real Estate (2.9%)</b>		
Alaska Air Group Inc.	27,614	2,450	* Micron Technology Inc.	231,099	5,066	Simon Property Group Inc.	70,398	12,508
CH Robinson Worldwide Inc.	31,582	2,314	Analog Devices Inc.	69,103	5,018	American Tower Corporation	95,440	10,086
Masco Corp.	73,055	2,310	Amphenol Corp. Class A	69,100	4,644	Public Storage	33,409	7,467
Acuity Brands Inc.	9,878	2,280	Paychex Inc.	72,099	4,389	Crown Castle International Corp.	80,829	7,014
Snap-on Inc.	13,036	2,233	Western Digital Corp.	63,998	4,349	Prologis Inc.	118,421	6,251
Cintas Corp.	19,150	2,213	Lam Research Corp.	36,425	3,851	Equinix Inc.	15,944	5,699
Expeditors International of Washington Inc.	40,058	2,121	Xilinx Inc.	56,576	3,415	AvalonBay Communities Inc.	30,820	5,460
Pentair plc	37,474	2,101	Linear Technology Corp.	53,897	3,360	Welltower Inc.	80,931	5,417
Kansas City Southern	23,857	2,024	Symantec Corp.	139,652	3,336	Equity Residential	81,904	5,271
* United Rentals Inc.	19,058	2,012	* Autodesk Inc.	43,571	3,225	Weyerhaeuser Co.	167,625	5,044
Xylem Inc.	40,248	1,993	Microchip Technology Inc.	48,407	3,105	Ventas Inc.	79,097	4,945
JB Hunt Transport Services Inc.	19,380	1,881	* Citrix Systems Inc.	34,696	3,099	Boston Properties Inc.	34,487	4,338
Fortune Brands Home & Security Inc.	34,633	1,852	Motorola Solutions Inc.	41,487	3,097	Vornado Realty Trust	38,594	4,028
Arconic Inc.	98,259	1,822	Alliance Data Systems Corp.	37,223	3,085	Digital Realty Trust Inc.	35,641	3,502
Fluor Corp.	30,776	1,616	Harris Corp.	12,949	2,959	Essex Property Trust Inc.	14,677	3,412
* Jacobs Engineering Group Inc.	26,872	1,532	* Red Hat Inc.	27,759	2,844	Realty Income Corp.	58,009	3,334
* Stericycle Inc.	19,312	1,488	KLA-Tencor Corp.	40,068	2,793	General Growth Properties Inc.	130,182	3,252
Flowserve Corp.	29,644	1,424	* Akamai Technologies Inc.	35,093	2,761	Host Hotels & Resorts Inc.	165,718	3,122
Robert Half International Inc.	28,739	1,402	Seagate Technology plc	38,652	2,577	HCP Inc.	104,731	3,113
Allegion plc	21,193	1,356	Juniper Networks Inc.	66,050	2,521	Mid-America Apartment Communities Inc.	25,447	2,492
* Quanta Services Inc.	34,894	1,216	Global Payments Inc.	84,671	2,393	SL Green Realty Corp.	22,654	2,436
Dun & Bradstreet Corp.	8,367	1,015	Global Payments Inc.	34,305	2,381	Kimco Realty Corp.	94,922	2,388
Ryder System Inc.	12,283	914	Western Union Co.	107,899	2,344	Federal Realty Investment Trust	16,098	2,288
Pitney Bowes Inc.	43,058	654	CA Inc.	70,247	2,232	UDR Inc.	59,878	2,184
		<b>443,260</b>	NetApp Inc.	61,673	2,175	Extra Space Storage Inc.	28,182	2,177
<b>Information Technology (20.7%)</b>			* F5 Networks Inc.	14,606	2,114	* CBRE Group Inc. Class A	67,316	2,120
Apple Inc.	1,194,359	138,331	Total System Services Inc.	37,148	1,821	Macerich Co.	27,077	1,918
Microsoft Corp.	1,741,544	108,220	Xerox Corp.	188,344	1,644	Iron Mountain Inc.	54,169	1,759
* Facebook Inc. Class A	524,288	60,319	* VeriSign Inc.	20,550	1,563	Apartment Investment & Management Co.	34,633	1,574
* Alphabet Inc. Class A	66,322	52,557	* Qorvo Inc.	28,249	1,490			<b>124,599</b>
* Alphabet Inc.	66,471	51,304	FLIR Systems Inc.	30,363	1,099	<b>Telecommunication Services (2.7%)</b>		
Intel Corp.	1,061,489	38,500	* CSRA Inc.	33,514	1,067	AT&T Inc.	1,375,426	58,497
Cisco Systems Inc.	1,124,343	33,978	* Teradata Corp.	30,008	815	Verizon Communications Inc.	913,108	48,742
Visa Inc. Class A	418,358	32,640	* First Solar Inc.	17,525	562	* Level 3 Communications Inc.	65,365	3,684
International Business Machines Corp.	193,852	32,178			<b>896,231</b>	CenturyLink Inc.	122,474	2,912
Oracle Corp.	671,277	25,811	<b>Materials (2.8%)</b>			^ Frontier Communications Corp.	270,802	915
Mastercard Inc. Class A	213,250	22,018	Dow Chemical Co.	251,248	14,376			<b>114,750</b>
QUALCOMM Inc.	330,863	21,572	El du Pont de Nemours & Co.	194,712	14,292	<b>Utilities (3.2%)</b>		
Texas Instruments Inc.	223,869	16,336	Monsanto Co.	98,180	10,330	NextEra Energy Inc.	104,689	12,506
Accenture plc Class A	138,965	16,277	Praxair Inc.	63,934	7,492	Duke Energy Corp.	154,312	11,978
Broadcom Ltd.	89,024	15,737	Air Products & Chemicals Inc.	48,735	7,009	Southern Co.	219,592	10,802
NVIDIA Corp.	120,806	12,895	Ecolab Inc.	58,775	6,890	Dominion Resources Inc.	140,468	10,758
* Adobe Systems Inc.	111,379	11,466	LyondellBasell Industries NV Class A	74,596	6,399	Exelon Corp.	206,823	7,340
Automatic Data Processing Inc.	101,133	10,394	PPG Industries Inc.	59,146	5,605	American Electric Power Co. Inc.	110,163	6,936
* PayPal Holdings Inc.	251,374	9,922	International Paper Co.	92,106	4,887	PG&E Corp.	112,925	6,862
* salesforce.com Inc.	143,020	9,791	Sherwin-Williams Co.	18,053	4,852	Sempra Energy	56,011	5,637
Hewlett Packard Enterprise Co.	373,140	8,634	Nucor Corp.	71,360	4,247	Edison International	73,013	5,256
Applied Materials Inc.	242,104	7,813	Newmont Mining Corp.	118,181	4,026	PPL Corp.	152,269	5,185
* Cognizant Technology Solutions Corp. Class A	135,944	7,617	Vulcan Materials Co.	29,577	3,702	Consolidated Edison Inc.	68,267	5,030
* Yahoo! Inc.	196,679	7,606	* Freeport-McMoRan Inc.	279,690	3,689	Public Service Enterprise Group Inc.	113,387	4,975
* eBay Inc.	233,274	6,926	Martin Marietta Materials Inc.	14,134	3,131	Xcel Energy Inc.	113,840	4,633
Intuit Inc.	54,459	6,242	Ball Corp.	38,872	2,918	WEC Energy Group Inc.	70,302	4,123
HP Inc.	383,240	5,687	WestRock Co.	56,340	2,860	DTE Energy Co.	40,248	3,965
Fidelity National Information Services Inc.	73,574	5,565	Eastman Chemical Co.	33,006	2,482	Eversource Energy	70,634	3,901
Activision Blizzard Inc.	153,215	5,533	Mosaic Co.	78,543	2,304	FirstEnergy Corp.	95,402	2,955
TE Connectivity Ltd.	79,679	5,520	Albemarle Corp.	25,240	2,173	Entergy Corp.	40,193	2,953
* Electronic Arts Inc.	67,660	5,329	International Flavors & Fragrances Inc.	17,742	2,091	American Water Works Co. Inc.	39,685	2,872
Corning Inc.	213,088	5,172	Sealed Air Corp.	43,496	1,972			
			CF Industries Holdings Inc.	53,465	1,683			
			FMC Corp.	29,594	1,674			
			Avery Dennison Corp.	19,628	1,378			
					<b>122,462</b>			

## Vanguard Equity Index Portfolio

	Shares	Market Value* (\$000)
Ameren Corp.	54,211	2,844
CMS Energy Corp.	62,560	2,604
CenterPoint Energy Inc.	96,489	2,378
SCANA Corp.	32,051	2,349
Pinnacle West Capital Corp.	24,957	1,947
Alliant Energy Corp.	51,053	1,934
AES Corp.	145,770	1,694
NiSource Inc.	72,451	1,604
NRG Energy Inc.	71,474	876
		<b>136,897</b>

**Total Common Stocks**  
(Cost \$3,179,177) **4,315,416**

#### Temporary Cash Investments (0.3%)<sup>1</sup>

<b>Money Market Fund (0.3%)</b>		
<sup>2,3</sup> Vanguard Market Liquidity Fund, 0.823%	111,566	11,158

Face  
Amount  
(\$000)

#### U.S. Government and Agency Obligations (0.0%)

<sup>4,5</sup> Federal Home Loan Bank Discount Notes, 0.390%, 2/1/17	100	100
<sup>5</sup> United States Treasury Bill, 0.557%, 4/27/17	700	699
<sup>5</sup> United States Treasury Bill, 0.587%, 5/18/17	300	299
<sup>5</sup> United States Treasury Bill, 0.577%–0.607%, 5/25/17	400	399
		<b>1,497</b>

**Total Temporary Cash Investments**  
(Cost \$12,655) **12,655**

**Total Investments (100.0%)**  
(Cost \$3,191,832) **4,328,071**

Amount  
(\$000)

#### Other Assets and Liabilities (0.0%)

<b>Other Assets</b>	
Investment in Vanguard	319
Receivables for Investment Securities Sold	67
Receivables for Accrued Income	5,503
Receivables for Capital Shares Issued	2,239
Other Assets	7
<b>Total Other Assets</b>	<b>8,135</b>

#### Liabilities

Payables for Investment Securities Purchased	(29)
Collateral for Securities on Loan	(452)
Payables for Capital Shares Redeemed	(2,868)
Payables to Vanguard	(3,450)
Other Liabilities	(76)
<b>Total Liabilities</b>	<b>(6,875)</b>

**Net Assets (100%)**

Applicable to 121,503,479 outstanding  
\$0.01 par value shares of beneficial  
interest (unlimited authorization) **4,329,331**

**Net Asset Value Per Share** **\$35.63**

#### At December 31, 2016, net assets consisted of:

	Amount (\$000)
Paid-in Capital	2,965,741
Undistributed Net Investment Income	81,911
Accumulated Net Realized Gains	145,558
Unrealized Appreciation (Depreciation)	
Investment Securities	1,136,239
Futures Contracts	(118)
<b>Net Assets</b>	<b>4,329,331</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

<sup>^</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$413,000.

<sup>1</sup> The portfolio invests a portion of its cash reserves in equity markets through the use of index futures contracts. After giving effect to futures investments, the portfolio's effective common stock and temporary cash investment positions represent 100.0% and 0.0%, respectively, of net assets.

<sup>2</sup> Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

<sup>3</sup> Includes \$452,000 of collateral received for securities on loan.

<sup>4</sup> The issuer operates under a congressional charter; its securities are generally neither guaranteed by the U.S. Treasury nor backed by the full faith and credit of the U.S. government.

<sup>5</sup> Securities with a value of \$768,000 have been segregated as initial margin for open futures contracts.

See accompanying Notes, which are an integral part of the Financial Statements.



## Statement of Operations

	Year Ended December 31, 2016
	(\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends	91,541
Interest <sup>1</sup>	95
Securities Lending—Net	154
Total Income	91,790
<b>Expenses</b>	
The Vanguard Group—Note B	
Investment Advisory Services	607
Management and Administrative	4,601
Marketing and Distribution	822
Custodian Fees	70
Auditing Fees	35
Shareholders' Reports	27
Trustees' Fees and Expenses	2
Total Expenses	6,164
<b>Net Investment Income</b>	<b>85,626</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold <sup>1</sup>	141,576
Futures Contracts	4,132
<b>Realized Net Gain (Loss)</b>	<b>145,708</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	236,319
Futures Contracts	(130)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>236,189</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>467,523</b>

<sup>1</sup> Interest income and realized net gain (loss) from an affiliated company of the portfolio were \$88,000 and \$1,000, respectively.

## Statement of Changes in Net Assets

	Year Ended December 31,	
	2016	2015
	(\$000)	(\$000)
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	85,626	91,367
Realized Net Gain (Loss)	145,708	74,917
Change in Unrealized Appreciation (Depreciation)	236,189	(119,916)
Net Increase (Decrease) in Net Assets Resulting from Operations	467,523	46,368
<b>Distributions</b>		
Net Investment Income	(91,047)	(63,303)
Realized Capital Gain <sup>1</sup>	(74,373)	(115,925)
Total Distributions	(165,420)	(179,228)
<b>Capital Share Transactions</b>		
Issued	466,783	608,805
Issued in Lieu of Cash Distributions	165,420	179,228
Redeemed	(589,792)	(454,226)
Net Increase (Decrease) from Capital Share Transactions	42,411	333,807
Total Increase (Decrease)	344,514	200,947
<b>Net Assets</b>		
Beginning of Period	3,984,817	3,783,870
End of Period <sup>2</sup>	4,329,331	3,984,817

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$600,000 and \$2,114,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$81,911,000 and \$87,332,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$33.25</b>	<b>\$34.44</b>	<b>\$31.50</b>	<b>\$24.93</b>	<b>\$22.85</b>
<b>Investment Operations</b>					
Net Investment Income	.704	.759 <sup>1</sup>	.587	.545	.512
Net Realized and Unrealized Gain (Loss) on Investments	3.055	(.338)	3.522	7.235	3.062
Total from Investment Operations	3.759	.421	4.109	7.780	3.574
<b>Distributions</b>					
Dividends from Net Investment Income	(.759)	(.569)	(.555)	(.505)	(.474)
Distributions from Realized Capital Gains	(.620)	(1.042)	(.614)	(.705)	(1.020)
Total Distributions	(1.379)	(1.611)	(1.169)	(1.210)	(1.494)
<b>Net Asset Value, End of Period</b>	<b>\$35.63</b>	<b>\$33.25</b>	<b>\$34.44</b>	<b>\$31.50</b>	<b>\$24.93</b>
<b>Total Return</b>	<b>11.81%</b>	<b>1.27%</b>	<b>13.51%</b>	<b>32.18%</b>	<b>15.86%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$4,329	\$3,985	\$3,784	\$3,199	\$2,418
Ratio of Total Expenses to Average Net Assets	0.15%	0.15%	0.16%	0.16%	0.17%
Ratio of Net Investment Income to Average Net Assets	2.08%	2.31% <sup>1</sup>	1.88%	1.96%	2.13%
Portfolio Turnover Rate	7%	4%	7%	8%	9%

<sup>1</sup> Net investment income per share and the ratio of net investment income to average net assets include \$.13 and 0.35%, respectively, resulting from a special dividend from Medtronic plc in January 2015.



## Notes to Financial Statements

Vanguard Equity Index Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objectives of maintaining full exposure to the stock market, enhancing returns, maintaining liquidity, and minimizing transaction costs. The portfolio may purchase futures contracts to immediately invest incoming cash in the market, or sell futures in response to cash outflows, thereby simulating a fully invested position in the underlying index while maintaining a cash balance for liquidity. The portfolio may seek to enhance returns by using futures contracts instead of the underlying securities when futures are believed to be priced more attractively than the underlying securities. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract.

Futures contracts are valued at their quoted daily settlement prices. The aggregate settlement values of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2016, the portfolio's average investments in long and short futures contracts represented less than 1% and 0% of net assets, respectively, based on the average of aggregate settlement values at each quarter-end during the period.

3. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

5. **Securities Lending:** To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any

loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the absence of a default the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

6. Credit Facility: The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and included in Management and Administrative expenses on the portfolio's Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.

7. Other: Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$319,000, representing 0.01% of the portfolio's net assets and 0.13% of Vanguard's capitalization. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

C. Various inputs may be used to determine the value of the portfolio's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio's own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	4,315,416	—	—
Temporary Cash Investments	11,158	1,497	—
Futures Contracts—Liabilities <sup>1</sup>	(75)	—	—
Total	4,326,499	1,497	—

<sup>1</sup> Represents variation margin on the last day of the reporting period.

D. At December 31, 2016, the aggregate settlement value of open futures contracts and the related unrealized appreciation (depreciation) were:

			(\$000)	
Futures Contracts	Expiration	Number of Long (Short) Contracts	Aggregate Settlement Value	Unrealized Appreciation
			Long (Short)	(Depreciation)
E-mini S&P 500 Index	March 2017	130	14,535	(118)

Unrealized appreciation (depreciation) on open futures contracts is required to be treated as realized gain (loss) for tax purposes.

E. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For tax purposes, at December 31, 2016, the portfolio had \$88,211,000 of ordinary income and \$142,267,000 of long-term capital gains available for distribution.

At December 31, 2016, the cost of investment securities for tax purposes was \$3,191,832,000. Net unrealized appreciation of investment securities for tax purposes was \$1,136,239,000, consisting of unrealized gains of \$1,319,983,000 on securities that had risen in value since their purchase and \$183,744,000 in unrealized losses on securities that had fallen in value since their purchase.

F. During the year ended December 31, 2016, the portfolio purchased \$285,739,000 of investment securities and sold \$326,505,000 of investment securities, other than temporary cash investments.

G. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016 Shares (000)	2015 Shares (000)
Issued	14,135	18,193
Issued in Lieu of Cash Distributions	5,208	5,441
Redeemed	(17,679)	(13,658)
Net Increase (Decrease) in Shares Outstanding	1,664	9,976

At December 31, 2016, three shareholders (including an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders and Vanguard Total Stock Market Index Portfolio) were each a record or beneficial owner of 30% or more of the portfolio's net assets, with a combined ownership of 95%. If one of these shareholders were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

H. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of Equity Index Portfolio:

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Equity Index Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers and by agreement to the underlying ownership records of the transfer agent, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

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### Special 2016 tax information (unaudited) for corporate shareholders only for Vanguard Equity Index Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2016, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$73,773,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year .

For corporate shareholders, 93% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

## About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
Equity Index Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,077.41	\$0.78
Based on Hypothetical 5% Yearly Return	1,000.00	1,024.38	0.76

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.15%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

**Fund Information** > 800-662-7447

**Annuity and Insurance Services** > 800-522-5555

**Institutional Investor Services** > 800-523-1036

**Text Telephone for People**

**Who Are Deaf or Hard of Hearing** > 800-749-7273

**This material may be used in conjunction with the offering of shares of any Vanguard fund only if preceded or accompanied by the fund's current prospectus.**

You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

The funds or securities referred to herein that are offered by The Vanguard Group and track an MSCI index are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities. For such funds or securities, the prospectus or the *Statement of Additional Information* contains a more detailed description of the limited relationship MSCI has with The Vanguard Group.



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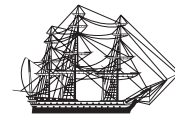
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**Vanguard®**



**Annual Report** | December 31, 2016

## Vanguard Variable Insurance Fund

High Yield Bond Portfolio



# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

**Goals.** Create clear, appropriate investment goals.

**Balance.** Develop a suitable asset allocation using broadly diversified funds.

**Cost.** Minimize cost.

**Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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High Yield Bond Portfolio	3

Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### Expect stabilization, not stagnation

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### Focus on keys to investment success

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017

## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® High Yield Bond Portfolio

## Advisor's Report

### The investment environment

For the year ended December 31, 2016, Vanguard High Yield Bond Portfolio returned 11.35%. That was less than the return of 13.41% for its benchmark and the average return of 12.93% for its peers. Please note that the portfolio returns in Vanguard Variable Insurance Fund are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

High-yield markets benefited from a rally in energy prices, tightening credit spreads, and coupon income during the year. The 10-year U.S. Treasury yield increased to 2.45% by the end of December 2016 from 2.30% a year earlier, although this modest increase masked larger volatility. Treasury yields declined for much of the year, then increased sharply after the election as expectations that President-elect Trump's fiscal policies would prove expansionary lifted the outlook for inflation.

Because bond yields and prices are inversely correlated, the increase in U.S. Treasury yields dampened bond prices. Fixed income assets with longer durations and those more sensitive to interest rates lagged in this environment. However, for credit-sensitive sectors, the effect of rising U.S. Treasury yields was more than offset by tightening credit spreads. The high-yield market performed particularly well, supported by continued demand for yield amid low absolute interest rates around much of the globe.

Oil and other commodities prices rallied sharply beginning in mid-February, and commodity-sensitive credits led the strong market. While there were periods of volatility during the year, including in late June when the United Kingdom's Brexit vote led to a flight to safety, market volatility subsided over the second half of the period and credit sectors rallied following the U.S. election results. Optimism that the policies of the incoming administration and

Congress would emphasize tax reform and deregulation boosted credit markets, and spreads tightened.

There was notable dispersion in performance by credit quality. The high-yield market favored bonds of relatively lower credit quality amid the search for yield. Bonds rated CCC performed best, returning 31.46%, according to Bloomberg Barclays High Yield Index data. Meanwhile, BB-rated bonds generated gains of 12.78%, and B-rated bonds returned 15.81%. The spread of the high-yield market tightened to 409 basis points over Treasuries as of December 31, from 660 basis points at the end of 2015. The average price of high-yield bonds increased \$11 to \$100 during the year.

We remain positive about the high-yield market, given the current backdrop of stable company fundamentals, a supportive macroeconomic landscape, and strong demand for yield-producing assets. We expect positive GDP growth in 2017, driven by consumer spending and housing, and believe most high-yield companies will be able to sustain solid credit profiles in that environment.

While we continue to monitor global political risks, we believe valuations are reasonable relative to our outlook, particularly given our expectation that defaults will decline over the course of 2017. The Moody's Investors Service trailing 12-month global issuer-weighted speculative-grade default rate ended December at 4.4%, slightly above the long-term average of 4.2%. We expect uncertainty to persist over the next several months, but we continue to take a long-term, issuer-specific approach to finding opportunities in this market.

### Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016 Average Annual Return
Vanguard High Yield Bond Portfolio	11.35%	6.10%
High-Yield Corporate Composite Index <sup>1</sup>	13.41	6.85
Variable Insurance High Yield Funds Average <sup>2</sup>	12.93	5.34

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>3</sup>	Variable Insurance High Yield Funds Average <sup>4</sup>
High Yield Bond Portfolio	0.28%	0.84%

1 Consists of 95% Bloomberg Barclays U.S. High-Yield Ba/B 2% Issuer Capped Index and 5% Bloomberg Barclays U.S. 1–5 Year Treasury Bond Index.

2 Derived from data provided by Lipper, a Thomson Reuters Company.

3 The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the portfolio's expense ratio was 0.28%.

4 The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.

We are most positive about the U.S. economy, and are therefore emphasizing issuers that benefit from a stable or growing domestic economy. Conversely, we are closely monitoring our position in U.S. hospitals, given potential changes to the regulatory environment.

Although we continue to monitor the possible impacts on global growth of increased political uncertainty and potential trends toward more protectionist policies, we believe strong investor demand will continue to support the high-yield market. We expect the insatiable global demand for yield to persist because of low absolute levels of interest rates around much of the globe. This “search for yield” is likely to provide a boost to high-yield markets going forward.

### **The portfolio’s shortfalls**

An underweight allocation to the metals and mining and energy sectors detracted from relative returns. Security selection within utilities also hurt relative results.

### **The portfolio’s successes**

The portfolio benefited from positive credit selection in the metals and mining and building materials sectors, as well as an underweight exposure to the pharmaceuticals sector. An underweight allocation to Treasury securities also helped relative performance.

### **The portfolio’s positioning**

The portfolio remains consistent in its investment objective and strategy and maintains a meaningful exposure to relatively higher-quality companies within the high-yield market. We believe

these companies have more consistent businesses and greater predictability of cash flows than those at the lower end of the quality spectrum. We emphasize higher-quality issuers in an effort to minimize defaults and provide stable income. We continue to diversify the portfolio’s holdings by issuer and industry and continue to deemphasize non-cash-paying securities, preferred stocks, and equity-linked securities such as convertibles because of their potential for volatility.

Michael L. Hong, CFA  
Managing Director and  
Fixed Income Portfolio Manager

Wellington Management Company LLP

January 20, 2017

## Portfolio Profile

As of December 31, 2016

### Financial Attributes

	Portfolio	Comparative Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Bonds	473	1,821	2,111
Yield <sup>3</sup>	5.0%	5.0%	6.1%
Yield to Maturity	5.4% <sup>4</sup>	5.4%	6.5%
Average Coupon	5.9%	6.0%	6.5%
Average Effective Maturity	5.6 years	5.2 years	5.1 years
Average Duration	4.5 years	4.2 years	4.1 years
Expense Ratio <sup>5</sup>	0.28%	—	—
Short-Term Reserves	4.3%	—	—

### Volatility Measures

	Portfolio Versus Comparative Index <sup>1</sup>	Portfolio Versus Broad Index <sup>2</sup>
R-Squared	0.97	0.94
Beta	0.89	0.75

### Distribution by Effective Maturity (% of portfolio)

Under 1 Year	5.2%
1–5 Years	26.3
5–10 Years	59.9
10–20 Years	4.5
20–30 Years	3.3
Over 30 Years	0.8

### Sector Diversification<sup>6</sup> (% of portfolio)

Basic Industry	6.5%
Capital Goods	7.9
Communication	26.5
Consumer Cyclical	9.5
Consumer Non-Cyclical	12.4
Energy	11.7
Finance	10.1
Technology	8.8
Transportation	1.9
Treasury/Agency	0.9
Utilities	3.3
Other	0.5

### Distribution by Credit Quality (% of portfolio)

U.S. Government	0.9%
Aaa	0.0
Baa	5.5
Ba	48.0
B	38.1
Caa	7.1
C	0.3
Not Rated	0.1

### Investment Focus

Average Maturity		Short	Med.	Long
Credit Quality	Treasury/Agency			
	Investment-Grade Corporate			
	Below Investment-Grade			

**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Credit Quality.** Credit-quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). U.S. Treasury, U.S. Agency, and U.S. Agency mortgage-backed securities appear under "U.S. Government." Credit-quality ratings are obtained from Barclays and are from Moody's, Fitch, and S&P. When ratings from all three agencies are used, the median rating is shown. When ratings from two of the agencies are used, the lower rating for each issue is shown. "Not Rated" is used to classify securities for which a rating is not available. Not rated securities include a fund's investment in Vanguard Market Liquidity Fund or Vanguard Municipal Cash Management Fund, each of which invests in high-quality money market instruments and may serve as a cash management vehicle for the Vanguard funds, trusts, and accounts.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> High-Yield Corporate Composite Index.

<sup>2</sup> Bloomberg Barclays U.S. Corporate High Yield Bond Index.

<sup>3</sup> 30-day SEC yield for the portfolio; index yield assumes that all bonds are called or prepaid at the earliest possible dates.

<sup>4</sup> Before expenses.

<sup>5</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the portfolio's expense ratio was 0.28%.

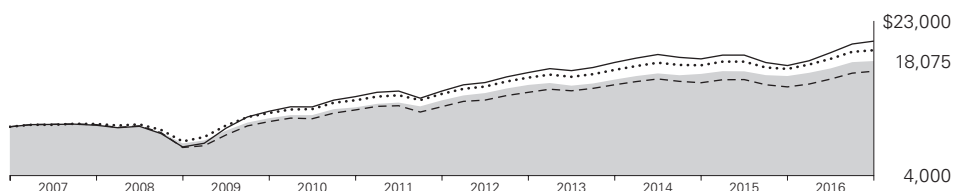
<sup>6</sup> The agency sector may include issues from government-sponsored enterprises; such issues are not backed by the full faith and credit of the U.S. government.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

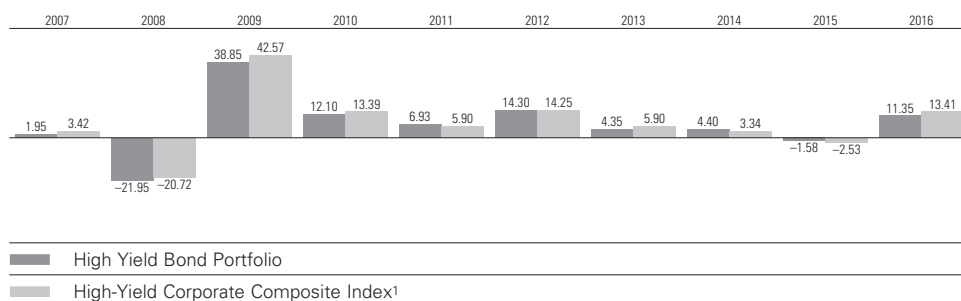
### Cumulative Performance: December 31, 2006–December 31, 2016

Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
High Yield Bond Portfolio	11.35%	6.42%	6.10%	\$18,075
High-Yield Corporate Composite Index <sup>1</sup>	13.41	6.69	6.85	19,400
Variable Insurance High Yield Bond Funds Average <sup>2</sup>	12.93	6.17	5.34	16,823
Bloomberg Barclays U.S. Corporate High Yield Bond Index	17.13	7.36	7.45	20,519

### Fiscal-Year Total Returns (%): December 31, 2006–December 31, 2016



<sup>1</sup> Consists of 95% Bloomberg Barclays U.S. High-Yield Ba/B 2% Issuer Capped Index and 5% Bloomberg Barclays U.S. 1–5 Year Treasury Bond Index.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

See Financial Highlights for dividend and capital gains information.



## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back of the report for further information).

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
<b>U.S. Government and Agency Obligations (0.9%)</b>					<b>Other Finance (0.3%)</b>				
<sup>1</sup> United States Treasury Note/Bond (Cost \$5,252)	0.875%	2/28/17	5,250	5,252	CNO Financial Group Inc.	4.500%	5/30/20	150	154
<b>Corporate Bonds (93.9%)</b>					CNO Financial Group Inc.	5.250%	5/30/25	1,065	1,062
<b>Finance (10.2%)</b>					<sup>3,5</sup> Lincoln Finance Ltd.	6.875%	4/15/21	265	303
<b>Banking (0.3%)</b>					<sup>3</sup> Lincoln Finance Ltd.	7.375%	4/15/21	485	517
Royal Bank of Scotland Group plc	6.125%	12/15/22	1,635	1,735	<b>Real Estate Investment Trusts (0.5%)</b>				
<b>Finance Companies (7.3%)</b>					Felcor Lodging LP	5.625%	3/1/23	2,325	2,372
<sup>2,3</sup> AerCap Global Aviation Trust	6.500%	6/15/45	3,750	3,783	Felcor Lodging LP	6.000%	6/1/25	660	686
AerCap Ireland Capital Ltd. / AerCap Global Aviation Trust	3.750%	5/15/19	1,480	1,508	<b>Industrial (80.8%)</b>				
AerCap Ireland Capital Ltd. / AerCap Global Aviation Trust	4.500%	5/15/21	1,810	1,869	<b>Basic Industry (6.8%)</b>				
AerCap Ireland Capital Ltd. / AerCap Global Aviation Trust	5.000%	10/1/21	755	800	AK Steel Corp.	7.625%	10/1/21	355	381
AerCap Ireland Capital Ltd. / AerCap Global Aviation Trust	4.625%	7/1/22	585	603	AK Steel Corp.	7.500%	7/15/23	2,265	2,469
Aircastle Ltd.	6.250%	12/1/19	345	373	<sup>3</sup> Anglo American Capital plc	3.625%	5/14/20	1,025	1,030
Aircastle Ltd.	5.125%	3/15/21	30	32	<sup>3</sup> Anglo American Capital plc	4.125%	4/15/21	855	865
Aircastle Ltd.	5.500%	2/15/22	830	880	<sup>3</sup> Anglo American Capital plc	4.125%	9/27/22	665	666
Aircastle Ltd.	5.000%	4/1/23	1,225	1,254	<sup>3</sup> Anglo American Capital plc	4.875%	5/14/25	850	863
<sup>3</sup> CIT Group Inc.	6.625%	4/1/18	2,555	2,686	ArcelorMittal	5.125%	6/1/20	295	310
<sup>3</sup> CIT Group Inc.	5.500%	2/15/19	2,270	2,392	ArcelorMittal	7.250%	2/25/22	560	633
CIT Group Inc.	3.875%	2/19/19	1,100	1,122	ArcelorMittal	6.125%	6/1/25	670	734
CIT Group Inc.	5.375%	5/15/20	2,915	3,083	<sup>6,7</sup> Arch Coal Inc. Bank Loan	10.000%	10/5/21	591	598
CIT Group Inc.	5.000%	8/15/22	1,205	1,250	<sup>3</sup> Axalta Coating Systems LLC	4.875%	8/15/24	685	685
<sup>4</sup> Homer City Generation LP	8.734%	10/1/26	3,575	1,537	<sup>3</sup> Cascades Inc.	5.500%	7/15/22	300	304
International Lease Finance Corp.	5.875%	4/1/19	1,455	1,548	Chemours Co.	6.625%	5/15/23	2,565	2,543
International Lease Finance Corp.	6.250%	5/15/19	2,042	2,190	Chemours Co.	7.000%	5/15/25	490	483
International Lease Finance Corp.	8.250%	12/15/20	1,511	1,760	<sup>3,5</sup> Constellium NV	4.625%	5/15/21	125	126
International Lease Finance Corp.	4.625%	4/15/21	970	1,005	<sup>3</sup> Constellium NV	8.000%	1/15/23	1,520	1,581
International Lease Finance Corp.	8.625%	1/15/22	900	1,081	<sup>3</sup> Constellium NV	5.750%	5/15/24	500	467
International Lease Finance Corp.	5.875%	8/15/22	90	98	Freeport-McMoRan Inc.	3.875%	3/15/23	250	229
Navient Corp.	8.450%	6/15/18	815	881	Freeport-McMoRan Inc.	4.550%	11/14/24	645	601
Navient Corp.	5.500%	1/15/19	2,730	2,849	Freeport-McMoRan Inc.	5.400%	11/14/34	875	739
Navient Corp.	8.000%	3/25/20	2,000	2,225	Freeport-McMoRan Inc.	5.450%	3/15/43	810	668
Navient Corp.	6.625%	7/26/21	315	336	Graphic Packaging International Inc.	4.125%	8/15/24	760	730
Navient Corp.	7.250%	1/25/22	615	659	Hexion US Finance Corp.	6.625%	4/15/20	1,545	1,369
Navient Corp.	5.500%	1/25/23	2,325	2,277	<sup>3,5</sup> INEOS Group Holdings SA	5.750%	2/15/19	790	848
Navient Corp.	7.250%	9/25/23	590	615	<sup>3</sup> INEOS Group Holdings SA	5.875%	2/15/19	1,385	1,409
<sup>3</sup> OneMain Financial Holdings LLC	6.750%	12/15/19	285	298	<sup>3</sup> New Gold Inc.	7.000%	4/15/20	260	267
Springleaf Finance Corp.	5.250%	12/15/19	210	213	<sup>3</sup> New Gold Inc.	6.250%	11/15/22	95	97
Springleaf Finance Corp.	6.000%	6/1/20	65	66	<sup>3</sup> Novelis Corp.	6.250%	8/15/24	1,580	1,667
Springleaf Finance Corp.	8.250%	12/15/20	2,300	2,501	<sup>3</sup> Novelis Corp.	5.875%	9/30/26	1,475	1,490
Springleaf Finance Corp.	7.750%	10/1/21	976	1,030	Steel Dynamics Inc.	5.125%	10/1/21	1,320	1,371
Springleaf Finance Corp.	8.250%	10/1/23	515	539	Steel Dynamics Inc.	5.500%	10/1/24	1,185	1,255
<b>Insurance (1.8%)</b>					Teck Resources Ltd.	3.750%	2/1/23	295	278
<sup>3</sup> Liberty Mutual Group Inc.	7.800%	3/15/37	1,560	1,753	<sup>3</sup> Teck Resources Ltd.	8.500%	6/1/24	1,395	1,606
LifePoint Health Inc.	5.875%	12/1/23	1,635	1,659	Teck Resources Ltd.	6.125%	10/1/35	235	229
MGIC Investment Corp.	5.750%	8/15/23	725	758	Teck Resources Ltd.	6.000%	8/15/40	200	188
Radian Group Inc.	5.250%	6/15/20	295	309	Teck Resources Ltd.	6.250%	7/15/41	645	621
Radian Group Inc.	7.000%	3/15/21	1,705	1,899	Teck Resources Ltd.	5.200%	3/1/42	150	131
Unum Group	7.375%	6/15/32	175	195	Teck Resources Ltd.	5.400%	2/1/43	1,450	1,274
<sup>2</sup> Voya Financial Inc.	5.650%	5/15/53	2,725	2,677	United States Steel Corp.	7.375%	4/1/20	1,034	1,104
WellCare Health Plans Inc.	5.750%	11/15/20	1,915	1,970	United States Steel Corp.	6.875%	4/1/21	590	593
					<sup>3</sup> United States Steel Corp.	8.375%	7/1/21	2,640	2,920
					United States Steel Corp.	7.500%	3/15/22	575	586
					United States Steel Corp.	6.650%	6/1/37	460	395
					<sup>3,5</sup> VWR Funding Inc.	4.625%	4/15/22	3,500	3,816
					<sup>3</sup> Westlake Chemical Corp.	4.625%	2/15/21	760	789
					<sup>3</sup> Westlake Chemical Corp.	4.875%	5/15/23	230	238



## Vanguard High Yield Bond Portfolio

				Face Amount (\$000)	Market Value* (\$000)					Face Amount (\$000)	Market Value* (\$000)
	Coupon	Maturity Date					Coupon	Maturity Date			
Capital Goods (7.7%)											
3	ARD Finance SA	7.125%	9/15/23	1,495	1,476	3	CCO Holdings LLC / CCO Holdings Capital Corp.	5.125%	5/1/23	2,990	3,072
3	Ardagh Packaging Finance PLC / Ardagh Holdings USA Inc.	7.250%	5/15/24	1,415	1,486		CCO Holdings LLC / CCO Holdings Capital Corp.	5.750%	9/1/23	1,150	1,202
3	Ashtead Capital Inc.	6.500%	7/15/22	825	862		CCO Holdings LLC / CCO Holdings Capital Corp.	5.750%	1/15/24	145	152
	Berry Plastics Corp.	5.500%	5/15/22	60	62	3	CCO Holdings LLC / CCO Holdings Capital Corp.	5.375%	5/1/25	2,441	2,502
	Berry Plastics Corp.	5.125%	7/15/23	60	61	3	CCO Holdings LLC / CCO Holdings Capital Corp.	5.750%	2/15/26	1,450	1,497
	Berry Plastics Escrow LLC/Berry Plastics Escrow Corp.	6.000%	10/15/22	750	795	3	CCO Holdings LLC / CCO Holdings Capital Corp.	5.500%	5/1/26	1,686	1,720
3	Cemex Finance LLC	6.000%	4/1/24	290	297		CCO Holdings LLC / CCO Holdings Capital Corp.	5.875%	5/1/27	745	771
3	Cemex SAB de CV	6.125%	5/5/25	3,580	3,670	3	Cequel Communications Holdings I LLC / Cequel Capital Corp.	5.125%	12/15/21	1,935	1,959
3	Cemex SAB de CV	7.750%	4/16/26	735	813		Charter Communications Operating LLC / Charter Communications Operating Capital	6.484%	10/23/45	1,341	1,548
	Clean Harbors Inc.	5.250%	8/1/20	2,006	2,051	3	Columbus International Inc.	7.375%	3/30/21	1,455	1,550
	Clean Harbors Inc.	5.125%	6/1/21	2,033	2,074		CSC Holdings LLC	7.625%	7/15/18	905	966
	CNH Industrial Capital LLC	3.625%	4/15/18	1,145	1,162		CSC Holdings LLC	8.625%	2/15/19	1,345	1,486
	CNH Industrial Capital LLC	3.875%	7/16/18	2,015	2,048		CSC Holdings LLC	6.750%	11/15/21	1,590	1,709
	CNH Industrial Capital LLC	3.375%	7/15/19	257	258	3	CSC Holdings LLC	5.500%	4/15/27	2,030	2,050
	CNH Industrial Capital LLC	4.375%	11/6/20	1,230	1,264		DISH DBS Corp.	6.750%	6/1/21	3,805	4,128
	CNH Industrial Capital LLC	4.875%	4/1/21	1,155	1,197		DISH DBS Corp.	5.875%	7/15/22	3,405	3,584
	CNH Industrial NV	4.500%	8/15/23	2,320	2,291		DISH DBS Corp.	5.000%	3/15/23	525	524
	Eagle Materials Inc.	4.500%	8/1/26	185	184		DISH DBS Corp.	5.875%	11/15/24	245	252
3	HD Supply Inc.	5.250%	12/15/21	1,105	1,169		DISH DBS Corp.	7.750%	7/1/26	2,350	2,655
3	HD Supply Inc.	5.750%	4/15/24	280	295		Embarq Corp.	7.995%	6/1/36	720	675
3	Huntington Ingalls Industries Inc.	5.000%	11/15/25	385	400		Frontier Communications Corp.	11.000%	9/15/25	2,030	2,096
	Masco Corp.	7.750%	8/1/29	480	583	3	Gannett Co. Inc.	5.125%	7/15/20	1,995	2,067
	Masco Corp.	6.500%	8/15/32	120	130		Gannett Co. Inc.	4.875%	9/15/21	410	416
	Owens Corning	9.000%	6/15/19	143	162		Gannett Co. Inc.	6.375%	10/15/23	2,300	2,426
3	Owens-Brockway Glass Container Inc.	5.875%	8/15/23	895	933	3	Gannett Co. Inc.	5.500%	9/15/24	200	202
3	Owens-Brockway Glass Container Inc.	6.375%	8/15/25	355	374	3	Gray Television Inc.	5.125%	10/15/24	855	829
	PulteGroup Inc.	5.500%	3/1/26	1,060	1,057	3	Gray Television Inc.	5.875%	7/15/26	820	812
	Reynolds Group Issuer Inc. / Reynolds Group Issuer LLC / Reynolds Group Issuer Lu	5.750%	10/15/20	985	1,016		Lamar Media Corp.	5.000%	5/1/23	1,070	1,102
	Reynolds Group Issuer Inc. / Reynolds Group Issuer LLC / Reynolds Group Issuer Lu	8.250%	2/15/21	718	741		Lamar Media Corp.	5.375%	1/15/24	115	120
3	Reynolds Group Issuer Inc. / Reynolds Group Issuer LLC / Reynolds Group Issuer Lu	5.125%	7/15/23	1,490	1,520		Lamar Media Corp.	5.750%	2/1/26	170	179
3	Reynolds Group Issuer Inc. / Reynolds Group Issuer LLC / Reynolds Group Issuer Lu	7.000%	7/15/24	440	465		Level 3 Financing Inc.	5.375%	8/15/22	2,515	2,590
3	Signode Industrial Group Lux SA/ Signode Industrial Group US Inc.	6.375%	5/1/22	1,555	1,553		Level 3 Financing Inc.	5.625%	2/1/23	870	890
3	Standard Industries Inc.	5.500%	2/15/23	295	305		Level 3 Financing Inc.	5.125%	5/1/23	1,120	1,126
3	Standard Industries Inc.	5.375%	11/15/24	1,085	1,116		Level 3 Financing Inc.	5.375%	1/15/24	450	455
3	Standard Industries Inc.	6.000%	10/15/25	4,295	4,520	3	Level 3 Financing Inc.	5.375%	5/1/25	1,120	1,137
	Terex Corp.	6.000%	5/15/21	1,350	1,387		Level 3 Financing Inc.	5.250%	3/15/26	1,500	1,481
	TransDigm Inc.	6.500%	7/15/24	400	419		Liberty Interactive LLC	8.500%	7/15/29	1,465	1,615
	TransDigm Inc.	6.500%	5/15/25	2,635	2,760		Liberty Interactive LLC	8.250%	2/1/30	3,945	4,201
	United Rentals North America Inc.	6.125%	6/15/23	355	376		MetroPCS Wireless Inc.	6.625%	11/15/20	2,035	2,086
	United Rentals North America Inc.	4.625%	7/15/23	840	859		National CineMedia LLC	6.000%	4/15/22	1,095	1,131
	United Rentals North America Inc.	5.500%	7/15/25	1,025	1,053	3	NBCUniversal Enterprise Inc.	5.250%	3/29/49	1,940	2,032
	United Rentals North America Inc.	5.875%	9/15/26	870	894		Netflix Inc.	5.500%	2/15/22	980	1,056
	United Rentals North America Inc.	5.500%	5/15/27	1,085	1,080		Netflix Inc.	5.875%	2/15/25	2,995	3,235
3	USG Corp.	5.500%	3/1/25	263	271	3	Netflix Inc.	4.375%	11/15/26	1,265	1,227
	Vulcan Materials Co.	7.150%	11/30/37	220	262	3	Nielsen Finance LLC / Nielsen Finance Co.	5.000%	4/15/22	4,155	4,238
Communication (24.8%)						3	Numericable Group SA	6.000%	5/15/22	1,275	1,307
3	Alice Financing SA	6.625%	2/15/23	615	633	3	Numericable-SFR SA	7.375%	5/1/26	1,450	1,483
3	Alice US Finance I Corp.	5.500%	5/15/26	1,900	1,929		Quebecor Media Inc.	5.750%	1/15/23	2,385	2,471
3	Bankrate Inc.	6.125%	8/15/18	385	389		Qwest Corp.	6.875%	9/15/33	481	455
	Belo Corp.	7.750%	6/1/27	205	218		SBA Communications Corp.	4.875%	7/15/22	1,545	1,564
	Belo Corp.	7.250%	9/15/27	616	647		Sinclair Television Group Inc.	6.125%	10/1/22	205	213
	CCO Holdings LLC / CCO Holdings Capital Corp.	5.250%	3/15/21	250	258	3	Sinclair Television Group Inc.	5.625%	8/1/24	115	118
	CCO Holdings LLC / CCO Holdings Capital Corp.	5.250%	9/30/22	365	379	3	Sinclair Television Group Inc.	5.875%	3/15/26	2,740	2,740
	CCO Holdings LLC / CCO Holdings Capital Corp.	5.125%	2/15/23	400	411	3	Sinclair Television Group Inc.	5.125%	2/15/27	1,590	1,511
						3	Sirius XM Radio Inc.	4.250%	5/15/20	305	310
						3	Sirius XM Radio Inc.	4.625%	5/15/23	390	386
						3	Sirius XM Radio Inc.	6.000%	7/15/24	1,193	1,248
						3	Sirius XM Radio Inc.	5.375%	4/15/25	382	381
						3	Softbank Corp.	4.500%	4/15/20	5,125	5,253
							Sprint Capital Corp.	6.875%	11/15/28	1,085	1,071

## Vanguard High Yield Bond Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
	8.750%	3/15/32	635	700		5.750%	10/1/22	387	399
<sup>3</sup> Sprint Capital Corp.	9.000%	11/15/18	2,795	3,074		5.375%	12/1/24	813	811
<sup>3</sup> Sprint Communications Inc.	7.000%	3/1/20	3,215	3,488		5.750%	6/1/22	605	628
<sup>3</sup> Sprint Communications Inc.	6.000%	11/15/22	325	327		5.625%	12/1/25	650	676
Sprint Corp.	7.250%	9/15/21	2,590	2,752		8.000%	11/15/21	1,225	1,427
Sprint Corp.	7.875%	9/15/23	4,573	4,882		5.375%	1/15/22	905	941
Sprint Corp.	7.125%	6/15/24	905	932	<sup>3</sup>	5.125%	11/15/24	1,770	1,797
Sprint Corp.	7.625%	2/15/25	1,215	1,277	<sup>3</sup>	5.875%	4/1/23	450	439
T-Mobile USA Inc.	6.633%	4/28/21	2,665	2,782		6.125%	4/1/25	450	435
Telecom Italia Capital SA	6.375%	11/15/33	381	364		4.875%	11/15/25	295	290
Telecom Italia Capital SA	6.000%	9/30/34	1,005	930		7.000%	8/15/22	445	461
Telecom Italia Capital SA	7.721%	6/4/38	1,280	1,322		5.375%	3/15/22	4,121	4,214
Time Warner Cable LLC	5.875%	11/15/40	60	64		4.500%	4/29/22	470	485
Time Warner Cable LLC	5.500%	9/1/41	1,973	2,016	<sup>3</sup>	4.750%	4/29/25	1,725	1,753
<sup>6,7</sup> Tribune Company Bank Loan	3.770%	12/27/20	1,893	1,906	<b>Consumer Noncyclical (11.2%)</b>				
Tribune Media Co.	5.875%	7/15/22	2,300	2,334		6.500%	6/15/20	481	475
<sup>3</sup> Unitymedia Hessen GmbH & Co. KG /					<sup>3</sup>	6.375%	7/1/23	1,135	1,125
Unitymedia NRW GmbH	5.500%	1/15/23	1,190	1,229		5.125%	1/15/24	395	407
<sup>3</sup> Univision Communications Inc.	5.125%	5/15/23	550	539	<sup>3</sup>	5.125%	1/15/24	580	597
<sup>3</sup> Univision Communications Inc.	5.125%	2/15/25	3,920	3,744	<sup>3</sup>	4.750%	6/1/26	580	574
Videotron Ltd.	5.000%	7/15/22	3,763	3,862	<sup>3</sup>	7.000%	5/15/19	1,155	1,164
<sup>3</sup> Videotron Ltd.	5.375%	6/15/24	260	267		7.125%	7/15/20	1,060	806
<sup>3</sup> Virgin Media Secured Finance plc	5.500%	1/15/25	610	618		5.125%	8/1/21	525	486
<sup>3</sup> Virgin Media Secured Finance plc	5.500%	8/15/26	355	354		6.875%	2/1/22	5,455	3,791
<sup>3</sup> VTR Finance BV	6.875%	1/15/24	2,720	2,788	<sup>3,6</sup>	6.500%	2/1/25	2,845	2,372
<sup>3</sup> Wind Acquisition Finance SA	4.750%	7/15/20	2,185	2,196	<sup>3</sup>	6.000%	7/15/23	2,515	2,204
<sup>3</sup> Wind Acquisition Finance SA	7.375%	4/23/21	1,900	1,971		5.125%	7/1/22	2,806	2,820
<sup>3</sup> WMG Acquisition Corp.	6.750%	4/15/22	2,462	2,591		5.625%	7/15/22	2,645	2,728
<sup>3</sup> WMG Acquisition Corp.	5.000%	8/1/23	740	741		5.250%	4/1/22	996	1,031
<sup>3</sup> WMG Acquisition Corp.	4.875%	11/1/24	1,105	1,099		6.250%	2/15/21	1,020	1,098
Zayo Group LLC / Zayo Capital Inc.	6.000%	4/1/23	3,315	3,443		6.500%	2/15/20	3,875	4,233
Zayo Group LLC / Zayo Capital Inc.	6.375%	5/15/25	1,430	1,487		5.875%	3/15/22	1,850	1,993
<b>Consumer Cyclical (9.0%)</b>						4.750%	5/1/23	2,100	2,150
<sup>3</sup> Activision Blizzard Inc.	6.125%	9/15/23	1,555	1,695		5.875%	5/1/23	300	319
<sup>3</sup> Adient Global Holdings Ltd.	4.875%	8/15/26	3,075	2,967		5.375%	2/1/25	505	506
American Axle & Manufacturing Inc.	6.625%	10/15/22	1,300	1,339		5.250%	4/15/25	1,500	1,562
<sup>6,7,8</sup> Bass Pro Group, LLC. Bank Loan	5.970%	11/4/23	3,095	3,066		6.500%	6/15/25	130	142
<sup>6,7</sup> BL Formula1 TB2L	8.068%	7/29/22	1,650	1,660		5.875%	2/15/26	1,900	1,950
<sup>3</sup> Carlson Wagonlit BV	6.875%	6/15/19	2,440	2,522		5.250%	6/15/26	975	1,008
Cedar Fair LP / Canada's Wonderland					<sup>3</sup>	7.500%	10/1/24	795	835
Co. / Magnum Management Corp.	5.375%	6/1/24	835	860		7.875%	2/15/21	1,570	1,703
Corrections Corp. of America	4.125%	4/1/20	1,105	1,109		4.625%	11/1/24	1,040	1,043
Dana Holding Corp.	5.375%	9/15/21	557	576		4.875%	11/1/26	1,040	1,028
Dana Holding Corp.	5.500%	12/15/24	1,055	1,071		4.250%	3/12/21	3,092	2,304
GLP Capital LP / GLP Financing II Inc.	4.375%	4/15/21	105	109	<sup>3</sup>	5.375%	5/1/24	806	788
GLP Capital LP / GLP Financing II Inc.	5.375%	11/1/23	2,630	2,814		5.250%	12/1/23	580	598
GLP Capital LP / GLP Financing II Inc.	5.375%	4/15/26	1,810	1,891		7.125%	6/1/24	1,590	1,666
Group 1 Automotive Inc.	5.000%	6/1/22	1,335	1,322	<sup>3</sup>	5.000%	8/15/26	2,915	2,798
<sup>3</sup> Group 1 Automotive Inc.	5.250%	12/15/23	1,055	1,042		4.875%	5/15/23	750	762
<sup>3</sup> Hanesbrands Inc.	4.625%	5/15/24	730	710		5.750%	2/15/21	570	574
<sup>3</sup> Hanesbrands Inc.	4.875%	5/15/26	735	718		6.250%	8/1/24	1,880	1,892
<sup>3</sup> Hilton Domestic Operating Co. Inc.	4.250%	9/1/24	1,770	1,715	<sup>6,7</sup>	4.250%	9/7/23	88	88
<sup>3</sup> IHO Verwaltungen GmbH	4.500%	9/15/23	725	710		4.250%	9/7/23	88	88
<sup>3</sup> IHO Verwaltungen GmbH	4.750%	9/15/26	680	654		4.250%	9/7/23	88	88
<sup>6,7</sup> Ion Media Networks Bank Loan	4.500%	12/18/20	1,783	1,787		4.250%	9/7/23	88	89
KB Home	4.750%	5/15/19	830	849		4.270%	9/7/23	88	89
KB Home	8.000%	3/15/20	120	132	<sup>6,7</sup>	4.307%	9/7/23	88	89
KB Home	7.000%	12/15/21	150	159					
KB Home	7.500%	9/15/22	215	228					
KB Home	7.625%	5/15/23	1,300	1,365					
<sup>3</sup> KFC Holding Co./Pizza Hut Holdings									
LLC/Taco Bell of America LLC	5.000%	6/1/24	815	832					
<sup>3</sup> KFC Holding Co./Pizza Hut Holdings									
LLC/Taco Bell of America LLC	5.250%	6/1/26	760	771					
L Brands Inc.	6.625%	4/1/21	1,430	1,611					
<sup>6,7</sup> La Quinta Intermediate Holdings									
LLC Bank Loan	3.750%	4/14/21	1,824	1,824					
Lennar Corp.	4.750%	4/1/21	740	765					
Lennar Corp.	4.875%	12/15/23	625	619					
Neiman Marcus Group Inc.	7.125%	6/1/28	1,820	1,643					
Penske Automotive Group Inc.	5.750%	10/1/22	387	399					
Penske Automotive Group Inc.	5.375%	12/1/24	813	811					
Sally Holdings LLC / Sally Capital Inc.	5.750%	6/1/22	605	628					
Sally Holdings LLC / Sally Capital Inc.	5.625%	12/1/25	650	676					
Service Corp. International	8.000%	11/15/21	1,225	1,427					
Service Corp. International	5.375%	1/15/22	905	941					
<sup>3</sup> ServiceMaster Co. LLC	5.125%	11/15/24	1,770	1,797					
<sup>3</sup> Shea Homes LP / Shea Homes									
Funding Corp.	5.875%	4/1/23	450	439					
<sup>3</sup> Shea Homes LP / Shea Homes									
Funding Corp.	6.125%	4/1/25	450	435					
Toll Brothers Finance Corp.	4.875%	11/15/25	295	290					
William Lyon Homes Inc.	7.000%	8/15/22	445	461					
Wynn Las Vegas LLC / Wynn Las									
Vegas Capital Corp.	5.375%	3/15/22	4,121	4,214					
<sup>3</sup> ZF North America Capital Inc.	4.500%	4/29/22	470	485					
<sup>3</sup> ZF North America Capital Inc.	4.750%	4/29/25	1,725	1,753					

## Vanguard High Yield Bond Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
6.7 Revlon Consumer Products Corp. Bank Loan	4.435%	9/7/23	176	177	QEP Resources Inc.	6.800%	3/1/20	220	230
3 Sterigenics-Nordion Holdings LLC	6.500%	5/15/23	1,915	1,948	QEP Resources Inc.	6.875%	3/1/21	460	489
Tempur Sealy International Inc.	5.625%	10/15/23	375	387	QEP Resources Inc.	5.375%	10/1/22	235	236
Tenet Healthcare Corp.	5.000%	3/1/19	1,560	1,521	QEP Resources Inc.	5.250%	5/1/23	450	451
Tenet Healthcare Corp.	5.500%	3/1/19	785	771	Rice Energy Inc.	7.250%	5/1/23	1,040	1,102
Tenet Healthcare Corp.	4.750%	6/1/20	835	841	3 RSP Permian Inc.	5.250%	1/15/25	350	352
Tenet Healthcare Corp.	4.500%	4/1/21	932	930	3 Sabine Pass Liquefaction LLC	5.875%	6/30/26	1,255	1,351
Tenet Healthcare Corp.	4.375%	10/1/21	3,520	3,489	SM Energy Co.	6.500%	11/15/21	100	102
3 Tenet Healthcare Corp.	7.500%	1/1/22	265	277	SM Energy Co.	6.125%	11/15/22	935	947
Tenet Healthcare Corp.	8.125%	4/1/22	2,830	2,667	SM Energy Co.	6.500%	1/1/23	75	76
THC Escrow Corp. II	6.750%	6/15/23	595	524	SM Energy Co.	5.000%	1/15/24	1,994	1,879
3 Valeant Pharmaceuticals International	6.375%	10/15/20	650	557	SM Energy Co.	5.625%	6/1/25	496	479
3 Valeant Pharmaceuticals International Inc.	6.750%	8/15/18	435	412	SM Energy Co.	6.750%	9/15/26	305	313
3 Valeant Pharmaceuticals International Inc.	5.375%	3/15/20	2,445	2,066	3 Southern Star Central Corp.	5.125%	7/15/22	480	485
3 Vizient Inc.	10.375%	3/1/24	1,225	1,378	Tesoro Corp.	5.125%	4/1/24	996	1,013
<b>Energy (11.2%)</b>					3 Tesoro Corp.	5.125%	12/15/26	665	670
AmeriGas Finance LLC / AmeriGas Finance Corp.	7.000%	5/20/22	501	527	Tesoro Logistics LP / Tesoro Logistics Finance Corp.	5.500%	10/15/19	165	174
AmeriGas Finance LLC / AmeriGas Finance Corp.	5.625%	5/20/24	1,395	1,426	Tesoro Logistics LP / Tesoro Logistics Finance Corp.	6.250%	10/15/22	1,120	1,184
AmeriGas Finance LLC / AmeriGas Finance Corp.	5.875%	8/20/26	1,395	1,416	Tesoro Logistics LP / Tesoro Logistics Finance Corp.	6.375%	5/1/24	770	824
AmeriGas Partners LP / AmeriGas Finance Corp.	5.500%	5/20/25	620	629	Tesoro Logistics LP / Tesoro Logistics Finance Corp.	5.250%	1/15/25	245	249
Anadarko Petroleum Corp.	5.550%	3/15/26	145	162	Williams Cos. Inc.	7.875%	9/1/21	510	584
Anadarko Petroleum Corp.	6.200%	3/15/40	731	838	Williams Cos. Inc.	3.700%	1/15/23	1,225	1,184
Anadarko Petroleum Corp.	6.600%	3/15/46	240	296	Williams Cos. Inc.	4.550%	6/24/24	681	682
Antero Resources Corp.	5.125%	12/1/22	1,445	1,458	Williams Cos. Inc.	5.750%	6/24/44	795	770
Concho Resources Inc.	6.500%	1/15/22	745	769	WPX Energy Inc.	6.000%	1/15/22	2,106	2,159
Concho Resources Inc.	5.500%	10/1/22	2,440	2,528	WPX Energy Inc.	5.250%	9/15/24	3,104	3,003
Concho Resources Inc.	5.500%	4/1/23	1,150	1,189	<b>Technology (8.3%)</b>				
Continental Resources Inc.	5.000%	9/15/22	3,354	3,354	Alcatel-Lucent USA Inc.	6.500%	1/15/28	1,355	1,416
Continental Resources Inc.	4.500%	4/15/23	1,680	1,642	Alcatel-Lucent USA Inc.	6.450%	3/15/29	2,500	2,606
Continental Resources Inc.	3.800%	6/1/24	505	467	3 Camelot Finance SA	7.875%	10/15/24	1,170	1,212
Continental Resources Inc.	4.900%	6/1/44	706	600	CDW LLC / CDW Finance Corp.	6.000%	8/15/22	3,865	4,097
3 DCP Midstream LLC	9.750%	3/15/19	450	503	CDW LLC / CDW Finance Corp.	5.000%	9/1/23	730	734
3 DCP Midstream LLC	5.350%	3/15/20	335	348	CDW LLC / CDW Finance Corp.	5.500%	12/1/24	485	499
DCP Midstream Operating LP	2.700%	4/1/19	600	594	Equinix Inc.	5.375%	4/1/23	680	707
DCP Midstream Operating LP	4.950%	4/1/22	1,436	1,465	3 First Data Corp.	5.375%	8/15/23	2,265	2,339
DCP Midstream Operating LP	3.875%	3/15/23	325	312	3 First Data Corp.	7.000%	12/1/23	5,565	5,948
DCP Midstream Operating LP	5.600%	4/1/44	875	796	3 First Data Corp.	5.000%	1/15/24	1,500	1,506
3 Diamondback Energy Inc.	4.750%	11/1/24	175	172	3 First Data Corp.	5.750%	1/15/24	3,751	3,854
3 Diamondback Energy Inc.	5.375%	5/31/25	1,430	1,437	3 IMS Health Inc.	5.000%	10/15/26	1,130	1,131
Energy Transfer Equity LP	7.500%	10/15/20	2,460	2,737	Infor US Inc.	6.500%	5/15/22	3,060	3,190
Energy Transfer Equity LP	5.500%	6/1/27	2,430	2,369	3.9 Iron Mountain Europe plc	6.125%	9/15/22	755	991
Ferrellgas LP / Ferrellgas Finance Corp.	6.500%	5/1/21	2,303	2,280	Iron Mountain Inc.	5.750%	8/15/24	825	848
Kerr-McGee Corp.	6.950%	7/1/24	985	1,167	3 MSCI Inc.	5.250%	11/15/24	395	412
Kinder Morgan Inc.	7.750%	1/15/32	740	907	3 MSCI Inc.	5.750%	8/15/25	1,560	1,654
Laredo Petroleum Inc.	5.625%	1/15/22	1,555	1,553	3 MSCI Inc.	4.750%	8/1/26	510	507
Laredo Petroleum Inc.	7.375%	5/1/22	550	570	NCR Corp.	4.625%	2/15/21	2,375	2,411
Laredo Petroleum Inc.	6.250%	3/15/23	1,965	2,009	NCR Corp.	5.875%	12/15/21	145	152
Marathon Oil Corp.	3.850%	6/1/25	1,190	1,148	NCR Corp.	5.000%	7/15/22	600	601
Marathon Oil Corp.	6.800%	3/15/32	250	276	NCR Corp.	6.375%	12/15/23	455	488
Marathon Oil Corp.	6.600%	10/1/37	300	326	Nokia Oyj	6.625%	5/15/39	2,250	2,379
Marathon Oil Corp.	5.200%	6/1/45	395	371	3 NXP BV / NXP Funding LLC	3.750%	6/1/18	1,190	1,208
Matador Resources Co.	6.875%	4/15/23	1,420	1,495	3 NXP BV / NXP Funding LLC	4.125%	6/15/20	545	564
3 Matador Resources Co.	6.875%	4/15/23	470	495	3 NXP BV / NXP Funding LLC	4.625%	6/15/22	1,080	1,137
3 MEG Energy Corp.	6.500%	3/15/21	496	456	3 NXP BV / NXP Funding LLC	3.875%	9/1/22	1,355	1,374
3 MEG Energy Corp.	6.375%	1/30/23	850	748	3 NXP BV / NXP Funding LLC	5.750%	3/15/23	255	269
3 MEG Energy Corp.	7.000%	3/31/24	1,439	1,288	3 NXP BV / NXP Funding LLC	4.625%	6/1/23	1,035	1,087
MPLX LP	4.875%	12/1/24	1,410	1,442	3 Open Text Corp.	5.625%	1/15/23	1,055	1,097
MPLX LP	4.875%	6/1/25	2,685	2,752	3 Open Text Corp.	5.875%	6/1/26	870	910
Newfield Exploration Co.	5.625%	7/1/24	600	626	3 Sensata Technologies BV	5.625%	11/1/24	575	608
3 Parsley Energy LLC / Parsley Finance Corp.	5.375%	1/15/25	815	815	3 Sensata Technologies BV	5.000%	10/1/25	1,610	1,572
					3 Sensata Technologies UK Financing Co. plc	6.250%	2/15/26	1,520	1,583
					SS&C Technologies Holdings Inc.	5.875%	7/15/23	890	922

## Vanguard High Yield Bond Portfolio

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)	Amount (\$000)
<b>Transportation (1.8%)</b>					
<sup>3</sup> Avis Budget Car Rental LLC / Avis Budget Finance Inc.	5.125%	6/1/22	1,876	1,839	
Avis Budget Car Rental LLC / Avis Budget Finance Inc.	5.500%	4/1/23	2,028	1,987	
<sup>3</sup> Avis Budget Car Rental LLC / Avis Budget Finance Inc.	6.375%	4/1/24	580	577	
<sup>2</sup> Continental Airlines 2007-1 Class B Pass Through Trust	6.903%	4/19/22	291	305	
Hertz Corp.	4.250%	4/1/18	390	389	
Hertz Corp.	6.750%	4/15/19	720	718	
Hertz Corp.	5.875%	10/15/20	1,330	1,297	
Hertz Corp.	7.375%	1/15/21	2,230	2,224	
<sup>3</sup> Hertz Corp.	5.500%	10/15/24	2,090	1,811	
				<b>503,095</b>	
<b>Utilities (2.9%)</b>					
<b>Electric (2.9%)</b>					
AES Corp.	8.000%	6/1/20	815	947	
AES Corp.	4.875%	5/15/23	600	594	
AES Corp.	5.500%	3/15/24	3,706	3,762	
Calpine Corp.	5.375%	1/15/23	1,025	1,002	
<sup>3</sup> Calpine Corp.	5.875%	1/15/24	285	298	
Calpine Corp.	5.750%	1/15/25	4,580	4,431	
GenOn Energy Inc.	7.875%	6/15/17	575	411	
GenOn Energy Inc.	9.500%	10/15/18	1,800	1,274	
GenOn Energy Inc.	9.875%	10/15/20	745	508	
NRG Energy Inc.	7.875%	5/15/21	44	46	
NRG Energy Inc.	6.250%	7/15/22	1,544	1,550	
NRG Energy Inc.	6.625%	3/15/23	300	302	
NRG Energy Inc.	6.250%	5/1/24	1,416	1,391	
<sup>3</sup> NRG Energy Inc.	7.250%	5/15/26	1,425	1,421	
				<b>17,937</b>	
<b>Total Corporate Bonds (Cost \$575,132)</b>				<b>584,424</b>	
Shares					
<b>Other (0.0%)</b>					
<sup>*</sup> MediaNews Group Inc. Warrants Exp. 03/19/2017 (Cost \$777)			2,084	20	
<b>Temporary Cash Investment (4.3%)</b>					
<b>Repurchase Agreement (4.3%)</b>					
Bank of America Securities, LLC (Dated 12/30/16, Repurchase Value \$26,701,000, collateralized by Government National Mortgage Assn. 1.695%–5.616%, 7/20/46–11/20/66, with a value of \$27,234,000) (Cost \$26,700)	0.480%	1/3/17	26,700	26,700	
<b>Total Investments (99.1%) (Cost \$607,861)</b>				<b>616,396</b>	

## Other Assets and Liabilities (0.9%)

<b>Other Assets</b>		
Investment in Vanguard		46
Receivables for Accrued Income		9,184
Receivables for Capital Shares Issued		501
Other Assets		1,215
<b>Total Other Assets</b>		<b>10,946</b>
<b>Liabilities</b>		
Payables for Investment Securities Purchased		(3,064)
Payables to Investment Advisor		(92)
Payables for Capital Shares Redeemed		(1,060)
Payables to Vanguard		(910)
Other Liabilities		(47)
<b>Total Liabilities</b>		<b>(5,173)</b>
<b>Net Assets (100%)</b>		
Applicable to 77,846,594 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)		622,169
<b>Net Asset Value Per Share</b>		<b>\$7.99</b>

## At December 31, 2016, net assets consisted of:

	Amount (\$000)
Paid-in Capital	594,923
Undistributed Net Investment Income	30,520
Accumulated Net Realized Losses	(11,793)
Unrealized Appreciation (Depreciation)	
Investment Securities	8,535
Swap Contracts	25
Forward Currency Contracts	(39)
Foreign Currencies	(2)
<b>Net Assets</b>	<b>622,169</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

1 Securities with a value of \$175,000 have been segregated as initial margin for open cleared swap contracts.

2 The average or expected maturity is shorter than the final maturity shown because of the possibility of interim principal payments and prepayments or the possibility of the issue being called.

3 Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be sold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2016, the aggregate value of these securities was \$217,725,000, representing 35.0% of net assets.

4 Security made only partial principal and/or interest payments during the period ended December 31, 2016.

5 Face amount denominated in euro.

6 Adjustable-rate security.

7 Security is a senior, secured, high-yield floating-rate loan. These loans are debt obligations issued by public and private companies and are comparable to high-yield bonds from a ratings and leverage perspective. At December 31, 2016, the aggregate value of these securities was \$13,941,000, representing 2.2% of net assets.

8 Security purchased on a when-issued or delayed-delivery basis for which the fund has not taken delivery as of December 31, 2016.

9 Face amount denominated in British pounds.

See accompanying Notes, which are an integral part of the Financial Statements.

## Statement of Operations

	Year Ended December 31, 2016 (\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends	73
Interest	32,343
Total Income	32,416
<b>Expenses</b>	
Investment Advisory Fees—Note B	340
The Vanguard Group—Note C	
Management and Administrative	1,060
Marketing and Distribution	110
Custodian Fees	25
Auditing Fees	37
Shareholders' Reports	14
Trustees' Fees and Expenses	1
Total Expenses	1,587
<b>Net Investment Income</b>	<b>30,829</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold	(11,477)
Swap Contracts	199
Foreign Currencies and Forward Currency Contracts	496
<b>Realized Net Gain (Loss)</b>	<b>(10,782)</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	40,249
Swap Contracts	76
Foreign Currencies and Forward Currency Contracts	(104)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>40,221</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>60,268</b>

## Statement of Changes in Net Assets

	Year Ended December 31, 2016      2015 (\$000)      (\$000)	
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	30,829	29,362
Realized Net Gain (Loss)	(10,782)	(254)
Change in Unrealized Appreciation (Depreciation)	40,221	(37,925)
Net Increase (Decrease) in Net Assets Resulting from Operations	60,268	(8,817)
<b>Distributions</b>		
Net Investment Income	(29,106)	(27,866)
Realized Capital Gain <sup>1</sup>	—	(856)
Total Distributions	(29,106)	(28,722)
<b>Capital Share Transactions</b>		
Issued	127,974	98,465
Issued in Lieu of Cash Distributions	29,106	28,722
Redeemed	(86,704)	(102,606)
Net Increase (Decrease) from Capital Share Transactions	70,376	24,581
Total Increase (Decrease)	101,538	(12,958)
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>520,631</b>	<b>533,589</b>
<b>End of Period<sup>2</sup></b>	<b>622,169</b>	<b>520,631</b>

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$0 and \$0, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$30,520,000 and \$28,155,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$7.59</b>	<b>\$8.14</b>	<b>\$8.24</b>	<b>\$8.33</b>	<b>\$7.72</b>
<b>Investment Operations</b>					
Net Investment Income	.397	.427	.416	.458	.420
Net Realized and Unrealized Gain (Loss) on Investments	.426	(.541)	(.061)	(.108)	.641
Total from Investment Operations	.823	(.114)	.355	.350	1.061
<b>Distributions</b>					
Dividends from Net Investment Income	(.423)	(.423)	(.455)	(.440)	(.451)
Distributions from Realized Capital Gains	—	(.013)	—	—	—
Total Distributions	(.423)	(.436)	(.455)	(.440)	(.451)
<b>Net Asset Value, End of Period</b>	<b>\$7.99</b>	<b>\$7.59</b>	<b>\$8.14</b>	<b>\$8.24</b>	<b>\$8.33</b>
<b>Total Return</b>	<b>11.35%</b>	<b>-1.58%</b>	<b>4.40%</b>	<b>4.35%</b>	<b>14.30%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$622	\$521	\$534	\$509	\$546
Ratio of Total Expenses to Average Net Assets	0.28%	0.28%	0.29%	0.29%	0.29%
Ratio of Net Investment Income to Average Net Assets	5.44%	5.41%	5.24%	5.51%	6.10%
Portfolio Turnover Rate	27%	38%	35%	37%	29%

## Notes to Financial Statements

Vanguard High Yield Bond Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts. Certain of the portfolio's investments are in corporate debt instruments; the issuers' abilities to meet their obligations may be affected by economic developments in their respective industries.

**A.** The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Bonds and temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services. Structured debt securities, including mortgages and asset-backed securities, are valued using the latest bid prices or using valuations based on a matrix system that considers such factors as issuer, tranche, nominal or option-adjusted spreads, weighted average coupon, weighted average maturity, credit enhancements, and collateral. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value.

2. **Foreign Currency:** Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates obtained from an independent third party as of the portfolio's pricing time on the valuation date. Realized gains (losses) and unrealized appreciation (depreciation) on investment securities include the effects of changes in exchange rates since the securities were purchased, combined with the effects of changes in security prices. Fluctuations in the value of other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains (losses) until the assets or liabilities are settled in cash, at which time they are recorded as realized foreign currency gains (losses).



3. Forward Currency Contracts: The portfolio enters into forward currency contracts to protect the value of securities and related receivables and payables against changes in future foreign exchange rates. The portfolio's risks in using these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the ability of the counterparties to fulfill their obligations under the contracts. The portfolio mitigates its counterparty risk by entering into forward currency contracts only with a diverse group of prequalified counterparties, monitoring their financial strength, entering into master netting arrangements with its counterparties, and requiring its counterparties to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or rehypothecated. The master netting arrangements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate the forward currency contracts, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements. The forward currency contracts contain provisions whereby a counterparty may terminate open contracts if the portfolio's net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any assets pledged as collateral for open contracts are noted in the Statement of Net Assets. The value of collateral received or pledged is compared daily to the value of the forward currency contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

Forward currency contracts are valued at their quoted daily prices obtained from an independent third party, adjusted for currency risk based on the expiration date of each contract. The notional amounts of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized forward currency contract gains (losses).

During the year ended December 31, 2016, the portfolio's average investment in forward currency contracts represented 1% of net assets, based on the average of notional amounts at each quarter-end during the period.

4. Swap Contracts: The portfolio invests in credit default swaps to adjust the overall credit risk of the portfolio or to actively overweight or underweight credit risk to a specific issuer or group of issuers. The portfolio may sell credit protection through credit default swaps to simulate investments in long positions that are either unavailable or considered to be less attractively priced in the bond market. The portfolio may purchase credit protection through credit default swaps to reduce credit exposure to a given issuer or issuers. Under the terms of the swaps, an up-front payment may be exchanged between the seller and buyer. In addition, the seller of the credit protection receives a periodic payment of premium from the buyer that is a fixed percentage applied to a notional amount. If, for example, the reference entity is subject to a credit event (such as bankruptcy, failure to pay, or obligation acceleration) during the term of the swap, the seller agrees to either physically settle or cash settle the swap contract. If the swap is physically settled, the seller agrees to pay the buyer an amount equal to the notional amount and take delivery of a debt instrument of the reference issuer with a par amount equal to such notional amount. If the swap is cash settled, the seller agrees to pay the buyer the difference between the notional amount and the final price for the relevant debt instrument, as determined either in a market auction or pursuant to a pre-agreed-upon valuation procedure.

The notional amounts of swap contracts are not recorded in the Statement of Net Assets. Swaps are valued daily based on market quotations received from independent pricing services or recognized dealers and the change in value is recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the seller of credit protection is required to take delivery (or, in a cash settled swap, pay the settlement amount determined) upon occurrence of a credit event, periodic payments are made, or the swap terminates, at which time realized gain (loss) is recorded. The net premium to be received or paid by the portfolio under swap contracts is accrued daily and recorded as realized gain (loss) over the life of the contract.

The primary risk associated with selling credit protection is that, upon the occurrence of a defined credit event, the market value of the debt instrument received by the portfolio (or, in a cash settled swap, the debt instruments used to determine the settlement payment by the portfolio) will be significantly less than the amount paid by the portfolio and, in a physically settled swap, the portfolio may receive an illiquid debt instrument. A risk associated with all types of swaps is the possibility that a counterparty may default on its obligation to pay net amounts due to the portfolio. The portfolio's maximum amount subject to counterparty risk is the unrealized appreciation on the swap contract. The portfolio mitigates its counterparty risk by entering into swaps only with a diverse group of

prequalified counterparties, monitoring their financial strength, entering into master netting arrangements with its counterparties, and requiring its counterparties to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or rehypothecated. In the event of a counterparty's default (including bankruptcy), the portfolio may terminate any swap contracts with that counterparty, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements. The swap contracts contain provisions whereby a counterparty may terminate open contracts if the portfolio's net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any securities pledged as collateral for open contracts are noted in the Statement of Net Assets. The value of collateral received or pledged is compared daily to the value of the swap contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

The portfolio enters into centrally cleared credit default swaps to achieve the same objectives specified with respect to the equivalent over-the-counter swaps but with less counterparty risk because a regulated clearinghouse is the counterparty instead of the clearing broker or executing broker. The clearinghouse imposes initial margin requirements to secure the portfolio's performance, and requires daily settlement of variation margin representing changes in the market value of each contract. To further mitigate counterparty risk, the portfolio trades with a diverse group of prequalified executing brokers; monitors the financial strength of its clearing brokers, executing brokers, and clearinghouse; and has entered into agreements with its clearing brokers and executing brokers.

During the year ended December 31, 2016, the portfolio's average amounts of investments in credit protection sold and credit protection purchased represented less than 1% and 0% of net assets, respectively, based on the average of notional amounts at each quarter-end during the period.

5. Repurchase Agreements: The portfolio enters into repurchase agreements with institutional counterparties. Securities pledged as collateral to the portfolio under repurchase agreements are held by a custodian bank until the agreements mature, and in the absence of a default, such collateral cannot be repledged, resold, or rehypothecated. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal. The portfolio further mitigates its counterparty risk by entering into repurchase agreements only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master repurchase agreements with its counterparties. The master repurchase agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any repurchase agreements with that counterparty, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio. Such action may be subject to legal proceedings, which may delay or limit the disposition of collateral.

6. Federal Income Taxes: The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

7. Distributions: Distributions to shareholders are recorded on the ex-dividend date.

8. Credit Facility: The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and included in Management and Administrative expenses on the portfolio's Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.



9. Other: Dividend income is recorded on the ex-dividend date. Interest income is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. Wellington Management Company LLP provides investment advisory services to the portfolio for a fee calculated at an annual percentage rate of average net assets. For the year ended December 31, 2016, the investment advisory fee represented an effective annual rate of 0.06% of the portfolio's average net assets.

C. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$46,000, representing 0.01% of the portfolio's net assets and 0.02% of Vanguard's capitalization. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

D. Various inputs may be used to determine the value of the portfolio's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio's own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
U.S. Government and Agency Obligations	—	5,252	—
Corporate Bonds	—	584,424	—
Other	—	—	20
Temporary Cash Investments	—	26,700	—
Forward Currency Contracts—Assets	—	4	—
Forward Currency Contracts—Liabilities	—	(43)	—
Swap Contracts—Assets <sup>1</sup>	5	—	—
Swap Contracts—Liabilities <sup>1</sup>	(3)	—	—
Total	2	616,337	20

<sup>1</sup> Represents variation margin on the last day of the reporting period.

E. At December 31, 2016, the fair values of derivatives were reflected in the Statement of Net Assets as follows:

Statement of Net Assets Caption	Foreign Exchange Contracts (\$000)	Credit Contracts (\$000)	Total (\$000)
Other Assets	4	5	9
Other Liabilities	(43)	(3)	(46)

	Foreign Exchange Contracts (\$000)	Credit Contracts (\$000)	Total (\$000)
Realized Net Gain (Loss) on Derivatives			
Forward Currency Contracts	498	—	498
Swap Contracts	—	199	199
Realized Net Gain (Loss) on Derivatives	498	199	697
Change in Unrealized Appreciation (Depreciation) on Derivatives			
Forward Currency Contracts	(103)	—	(103)
Swap Contracts	—	76	76
Change in Unrealized Appreciation (Depreciation) on Derivatives	(103)	76	(27)

At December 31, 2016, the portfolio had open forward currency contracts to receive and deliver currencies as follows. Unrealized appreciation (depreciation) on open forward currency contracts is treated as ordinary income for tax purposes.

Counterparty	Contract Settlement Date	Contract Amount (000)				Unrealized Appreciation (Depreciation) (\$000)
			Receive		Deliver	
Barclays Bank plc	1/31/17	USD	4,923	EUR	4,710	(43)
Bank of America N.A.	1/31/17	USD	955	GBP	771	4
						(39)

EUR—Euro.

GBP—British pound.

USD—U.S. dollar.

At December 31, 2016, the fund had the following open swap contracts:

#### Centrally Cleared Credit Default Swaps

Reference Entity	Termination Date	Counterparty	Notional Amount (\$000)	Remaining Up-Front Premium Received (Paid) (\$000)	Periodic Premium Received (Paid) (%)	Unrealized Appreciation (Depreciation) (\$000)
Credit Protection Sold						
CDX-HY-S27-V1-5Y	12/20/21	ICE	2,885	—	5.000	25

ICE—Intercontinental Exchange.

F. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

During the year ended December 31, 2016, the portfolio realized net foreign currency gains of \$538,000 (including gains and losses on forward currency contracts and the foreign currency component on sales of foreign currency denominated bonds), which increased distributable net income for tax purposes; accordingly, such gains have been reclassified from accumulated net realized losses to undistributed net investment income.

Realized and unrealized gains (losses) on certain of the portfolio's swap contracts are treated as ordinary income (loss) for tax purposes; the effect on the portfolio's income dividends to shareholders is offset by a change in principal return. Realized gains of \$104,000 on swap contracts have been reclassified from accumulated net realized losses to undistributed net investment income.

For tax purposes, at December 31, 2016, the portfolio had \$31,122,000 of ordinary income available for distribution. The portfolio had available capital losses totaling \$11,591,000 that may be carried forward indefinitely to offset future net capital gains.

At December 31, 2016, the cost of investment securities for tax purposes was \$607,861,000. Net unrealized appreciation of investment securities for tax purposes was \$8,535,000, consisting of unrealized gains of \$19,712,000 on securities that had risen in value since their purchase and \$11,177,000 in unrealized losses on securities that had fallen in value since their purchase.

G. During the year ended December 31, 2016, the portfolio purchased \$192,005,000 of investment securities and sold \$134,651,000 of investment securities, other than U.S. government securities and temporary cash investments. Purchases and sales of U.S. government securities were \$0 and \$4,060,000, respectively.

H. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016 Shares (000)	2015 Shares (000)
Issued	16,586	12,410
Issued in Lieu of Cash Distributions	3,976	3,659
Redeemed	(11,309)	(13,025)
Net Increase (Decrease) in Shares Outstanding	9,253	3,044

At December 31, 2016, one shareholder, an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders, was the record or beneficial owner of 55% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

I. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of High Yield Bond Portfolio:

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of High Yield Bond Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

## About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The table below illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
High Yield Bond Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,052.70	\$1.44
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.73	1.42

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.28%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

Vanguard High Yield Bond Portfolio is not sponsored, endorsed, issued, sold or promoted by Barclays Risk Analytics and Index Solutions Limited or any of its affiliates ("Barclays"). Barclays makes no representation or warranty, express or implied, to the owners or purchasers of Vanguard High Yield Bond Portfolio or any member of the public regarding the advisability of investing in securities generally or in Vanguard High Yield Bond Portfolio particularly or the ability of the Barclays Index to track general bond market performance. Barclays has not passed on the legality or suitability of Vanguard High Yield Bond Portfolio with respect to any person or entity. Barclays' only relationship to Vanguard and Vanguard High Yield Bond Portfolio is the licensing of the Barclays Index which is determined, composed and calculated by Barclays without regard to Vanguard or Vanguard High Yield Bond Portfolio or any owners or purchasers of Vanguard High Yield Bond Portfolio. Barclays has no obligation to take the needs of Vanguard, Vanguard High Yield Bond Portfolio or the owners of Vanguard High Yield Bond Portfolio into consideration in determining, composing or calculating the Barclays Index. Barclays is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of Vanguard High Yield Bond Portfolio to be issued. Barclays has no obligation or liability in connection with the administration, marketing or trading of Vanguard High Yield Bond Portfolio.

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

**Fund Information** > 800-662-7447

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**Text Telephone for People**

**Who Are Deaf or Hard of Hearing** > 800-749-7273

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You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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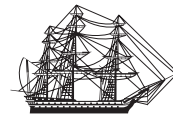
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**Vanguard®**



**Annual Report** | December 31, 2016

## Vanguard Variable Insurance Fund

Mid-Cap Index Portfolio

# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

- Goals.** Create clear, appropriate investment goals.
- Balance.** Develop a suitable asset allocation using broadly diversified funds.
- Cost.** Minimize cost.
- Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Mid-Cap Index Portfolio	3

Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

**Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.**

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### **Expect stabilization, not stagnation**

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### **Focus on keys to investment success**

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017



## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® Mid-Cap Index Portfolio

U.S. stocks posted solid returns in 2016 as the economy continued to slowly grow, corporate earnings improved, and investors were optimistic later in the year that President-elect Trump's policies would result in further economic expansion.

For the year ended December 31, 2016, Vanguard Mid-Cap Index Portfolio returned about 11%, in line with its benchmark index but more than 5 percentage points behind the average return of its peers.

Please note that the portfolio returns in Vanguard Variable Insurance Fund are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

## A wide variety of sectors registered robust returns

Vanguard Mid-Cap Index Portfolio offers investors broad exposure to the hundreds of mid-capitalization stocks in the U.S. equity market. Stocks of every style and from every industry sector are represented. Over the year, small-cap stocks outpaced mid- and large-caps, and value stocks outperformed their growth counterparts.

Financial stocks lifted the portfolio as the anticipation of short-term interest rate hikes by the Federal Reserve, the improving economy, and the rising stock market contributed to the sector's overall strength. Banks and insurance companies were leaders in the sector.

Another source of strength was technology. Communications equipment, hardware, semiconductor, and telecommunications equipment companies played large roles in the sector's strong showing.

The rebound in oil prices helped oil and gas stocks to significant returns. Stocks in industrials, basic materials, and utilities also produced meaningful results. Returns were more modest for consumer goods and services companies.

Health care stocks, the only negative performer, stumbled as observers voiced concerns about rising health care costs and investors mulled the possibility that increased government regulation of prices could dim profits. Biotechnology companies and pharmaceuticals suffered the most.

## Tight tracking prevailed during the previous decade

For the decade through December 31, 2016, the Mid-Cap Index Portfolio recorded an average annual return of 7.55%. This result tightly tracked the portfolio's target index, which has no transaction costs or operating expenses, and exceeded the average annual return of its peers.

First and foremost, the portfolio's objective is to track the index closely, and its success in doing so is a testament to the expertise and experience of the portfolio's advisor, Vanguard Equity Index Group. This group of professionals uses well-honed portfolio construction and trading methodologies that have allowed Vanguard to provide effective index tracking regardless of the market's volatility or direction. The portfolio has also benefited from its low costs, which help close the gap between the index's results and your returns.

## Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016
		Average Annual Return
Vanguard Mid-Cap Index Portfolio	11.11%	7.55%
Spliced Mid Cap Index <sup>1</sup>	11.25	7.70
Variable Insurance Mid-Cap Core Funds Average <sup>2</sup>	16.47	7.28

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

## Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>3</sup>	Variable Insurance Mid-Cap Core Funds Average <sup>4</sup>
Mid-Cap Index Portfolio	0.19%	0.78%

<sup>1</sup> MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>3</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the portfolio's expense ratio was 0.19%.

<sup>4</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.



## Portfolio Profile

As of December 31, 2016

### Portfolio Characteristics

	Portfolio	Target Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Stocks	340	340	3,833
Median Market Cap	\$11.7B	\$11.7B	\$54.1B
Price/Earnings Ratio	26.3x	26.3x	24.4x
Price/Book Ratio	2.6x	2.6x	2.8x
Yield <sup>3</sup>	1.4%	1.6%	2.0%
Return on Equity	15.0%	14.8%	16.5%
Earnings Growth Rate	9.6%	9.6%	8.2%
Foreign Holdings	0.0%	0.0%	0.0%
Turnover Rate	21%	—	—
Expense Ratio <sup>4</sup>	0.19%	—	—
Short-Term Reserves	0.0%	—	—

### Volatility Measures

	Portfolio Versus Spliced Target Index <sup>5</sup>	Portfolio Versus Broad Index <sup>2</sup>
R-Squared	1.00	0.94
Beta	1.00	1.04

### Sector Diversification (% of equity exposure)

	Portfolio	Target Index <sup>1</sup>	Broad Index <sup>2</sup>
Basic Materials	4.3%	4.3%	2.6%
Consumer Goods	13.3	13.4	9.6
Consumer Services	11.7	11.7	13.1
Financials	22.3	22.2	20.8
Health Care	7.9	7.9	12.2
Industrials	16.6	16.6	12.9
Oil & Gas	5.2	5.2	6.9
Technology	12.3	12.3	16.4
Telecommunications	1.1	1.1	2.4
Utilities	5.3	5.3	3.1

### Ten Largest Holdings<sup>6</sup> (% of total net assets)

Equinix Inc.	Specialty REITs	0.8%
Fiserv Inc.	Financial Administration	0.7
Electronic Arts Inc.	Toys	0.7
M&T Bank Corp.	Banks	0.7
Newell Brands Inc.	Durable Household Products	0.7
Amphenol Corp.	Electrical Components & Equipment	0.6
Edwards Lifesciences Corp.	Medical Supplies	0.6
KeyCorp	Banks	0.6
Western Digital Corp.	Computer Hardware	0.6
Concho Resources Inc.	Exploration & Production	0.6
Top Ten		6.6%

### Investment Focus

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Equity Exposure.** A measure that reflects a portfolio's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> CRSP US Mid Cap Index.

<sup>2</sup> Dow Jones U.S. Total Stock Market Float Adjusted Index.

<sup>3</sup> 30-day SEC yield for the portfolio; annualized dividend yield for the indexes.

<sup>4</sup> The expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the Mid-Cap Index Portfolio's expense ratio was 0.19%.

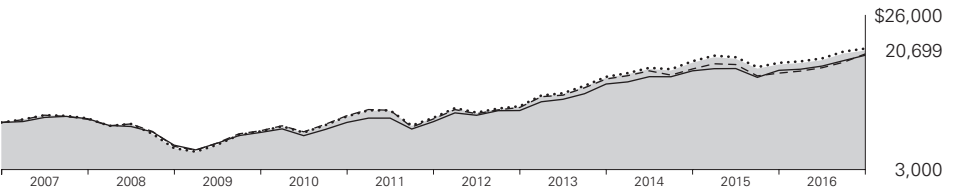
<sup>5</sup> Spliced Mid-Cap Index: MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.

<sup>6</sup> The holdings listed exclude any temporary cash investments and equity index products.

# Performance Summary

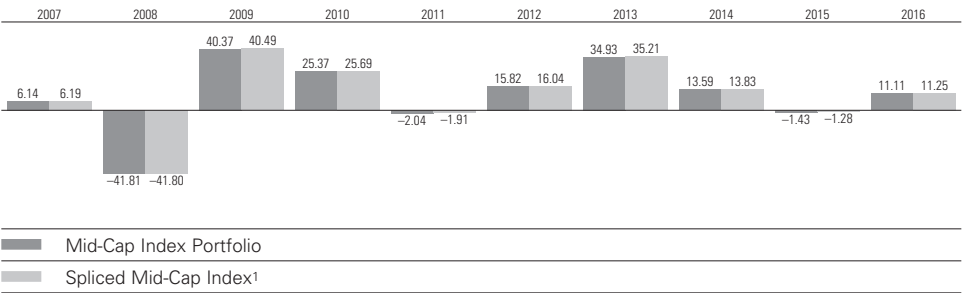
All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

Cumulative Performance: December 31, 2006–December 31, 2016  
Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Mid-Cap Index Portfolio	11.11%	14.22%	7.55%	\$20,699
Spliced Mid-Cap Index <sup>1</sup>	11.25	14.42	7.70	20,995
Variable Insurance Mid-Cap Core Funds Average <sup>2</sup>	16.47	13.94	7.28	20,199
Dow Jones U.S. Total Stock Market Float Adjusted Index	12.62	14.59	7.18	20,003

Fiscal Year Total Returns (%): December 31, 2006–December 31, 2016



1 MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.  
2 Derived from data provided by Lipper, a Thomson Reuters Company.  
See Financial Highlights for dividend and capital gains information.

## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (99.5%)<sup>1</sup></b>								
<b>Basic Materials (4.3%)</b>								
Newmont Mining Corp.	241,912	8,242	PVH Corp.	36,547	3,298	* Discovery Communications Inc.	101,576	2,720
* Freeport-McMoRan Inc.	558,673	7,369	* Michael Kors Holdings Ltd.	71,155	3,058	Staples Inc.	296,729	2,685
Celanese Corp. Class A	65,241	5,137	* Lululemon Athletica Inc.	43,578	2,832	Bed Bath & Beyond Inc.	66,043	2,684
Eastman Chemical Co.	63,611	4,784	* NVR Inc.	1,643	2,742	Nordstrom Inc.	55,509	2,661
Mosaic Co.	159,549	4,680	* WABCO Holdings Inc.	23,912	2,538	Scripps Networks Interactive Inc. Class A	36,987	2,640
Albemarle Corp.	51,314	4,417	* Lamb Weston Holdings Inc.	66,645	2,523	News Corp. Class A	228,753	2,622
International Flavors & Fragrances Inc.	32,633	3,845	* PulteGroup Inc.	135,823	2,497	* TripAdvisor Inc.	51,658	2,395
Arconic Inc.	199,802	3,704	*^ Under Armour Inc. Class A	83,970	2,439	H&R Block Inc.	100,135	2,302
FMC Corp.	61,112	3,457	* Under Armour Inc. Class A	25,619	2,314	Gap Inc.	100,124	2,247
CF Industries Holdings Inc.	106,330	3,347	* Polaris Industries Inc.	27,731	2,285	* Rite Aid Corp.	240,249	1,980
Ashland Global Holdings Inc.	28,314	3,095	* Under Armour Inc.	85,391	2,149	* Discovery Communications Inc. Class A	69,092	1,894
Avery Dennison Corp.	40,512	2,845	* Ingredion Inc.	16,508	2,063	Williams-Sonoma Inc.	36,386	1,761
* Axalta Coating Systems Ltd.	98,899	2,690	* Edgewell Personal Care Co.	26,375	1,925	* AutoNation Inc.	32,271	1,570
Reliance Steel & Aluminum Co.	31,356	2,494	Goodyear Tire & Rubber Co.	59,510	1,837	* Liberty Media Corp-Liberty SiriusXM Class A	39,653	1,369
WR Grace & Co.	31,916	2,159	* Pilgrim's Pride Corp.	22,822	433	* Hyatt Hotels Corp. Class A	12,230	676
* Alcoa Corp.	41,467	1,164	Lennar Corp. Class B	4,820	166			
Westlake Chemical Corp.	17,702	991			198,573			174,582
		64,420	<b>Consumer Services (11.7%)</b>					
<b>Consumer Goods (13.3%)</b>			* Dollar Tree Inc.	102,198	7,888	<b>Financials (22.1%)</b>		
* Electronic Arts Inc.	130,602	10,286	* Ulta Salon Cosmetics & Fragrance Inc.	27,010	6,886	Equinix Inc.	32,533	11,628
Newell Brands Inc.	219,831	9,816	Nielsen Holdings plc	163,148	6,844	M&T Bank Corp.	63,524	9,937
Conagra Brands Inc.	199,535	7,892	Royal Caribbean Cruises Ltd.	78,223	6,417	KeyCorp	492,614	9,000
Molson Coors Brewing Co. Class B	79,574	7,743	* MGM Resorts International	222,086	6,403	Citizens Financial Group Inc.	233,286	8,312
Dr Pepper Snapple Group Inc.	83,698	7,589	Expedia Inc.	56,318	6,380	Hartford Financial Services Group Inc.	172,131	8,202
Clorox Co.	58,697	7,045	Ross Stores Inc.	90,376	5,929	Regions Financial Corp.	561,098	8,057
JM Smucker Co.	50,405	6,455	* CarMax Inc.	86,714	5,584	Principal Financial Group Inc.	131,105	7,586
Whirlpool Corp.	34,237	6,223	Advance Auto Parts Inc.	31,944	5,402	Willis Towers Watson plc	59,239	7,244
Genuine Parts Co.	64,451	6,158	Best Buy Co. Inc.	123,131	5,254	Digital Realty Trust Inc.	72,424	7,116
* Mohawk Industries Inc.	28,737	5,738	Macy's Inc.	140,568	5,034	Moody's Corp.	74,080	6,984
Church & Dwight Co. Inc.	118,052	5,217	* Alaska Air Group Inc.	56,274	4,993	Essex Property Trust Inc.	29,866	6,944
McCormick & Co. Inc.	52,292	4,880	* Chipotle Mexican Grill Inc. Class A	13,201	4,981	Lincoln National Corp.	104,096	6,898
Harley-Davidson Inc.	80,710	4,709	* United Continental Holdings Inc.	62,500	4,555	Realty Income Corp.	117,846	6,774
Bunge Ltd.	63,619	4,596	Tractor Supply Co.	59,869	4,539	Huntington Bancshares Inc.	494,418	6,536
Snap-on Inc.	26,421	4,525	Whole Foods Market Inc.	145,230	4,467	First Republic Bank	70,086	6,458
DR Horton Inc.	164,732	4,502	Tiffany & Co.	57,031	4,416	Equifax Inc.	54,617	6,457
* WhiteWave Foods Co. Class A	80,727	4,488	Foot Locker Inc.	60,747	4,306	Host Hotels & Resorts Inc.	337,715	6,363
Coach Inc.	127,939	4,481	Interpublic Group of Cos. Inc.	180,873	4,234	* IHS Markit Ltd.	163,714	5,797
Mattel Inc.	155,985	4,297	Darden Restaurants Inc.	56,186	4,086	Invesco Ltd.	186,507	5,659
Lear Corp.	32,031	4,240	Kohl's Corp.	81,846	4,042	AvalonBay Communities Inc.	31,302	5,545
Hormel Foods Corp.	120,608	4,198	* Aramark	111,687	3,989	* Markel Corp.	6,063	5,484
Delphi Automotive plc	61,710	4,156	* Liberty Interactive Corp. QVC Group Class A	189,438	3,785	Cincinnati Financial Corp.	71,377	5,407
Tyson Foods Inc. Class A	66,206	4,084	Wyndham Worldwide Corp.	49,095	3,749	Comerica Inc.	78,487	5,346
* LKQ Corp.	133,129	4,080	Signet Jewelers Ltd.	34,495	3,251	Mid-America Apartment Communities Inc.	51,816	5,074
Hasbro Inc.	51,269	3,988	Wynn Resorts Ltd.	37,042	3,204	SL Green Realty Corp.	46,265	4,976
BorgWarner Inc.	97,182	3,833	* Norwegian Cruise Line Holdings Ltd.	72,544	3,085	* Liberty Broadband Corp.	66,315	4,912
Lennar Corp. Class A	89,087	3,825	FactSet Research Systems Inc.	18,155	2,967	Western Union Co.	220,888	4,798
Coty Inc. Class A	204,032	3,736	AmerisourceBergen Corp. Class A	37,658	2,944	Federal Realty Investment Trust	32,758	4,655
Hanesbrands Inc.	172,415	3,719	* Liberty Media Corp-Liberty SiriusXM Class C	81,425	2,762	Unum Group	105,785	4,647
Harman International Industries Inc.	31,827	3,538				Annaly Capital Management Inc.	465,127	4,637
Leucadia National Corp.	147,822	3,437				Kimco Realty Corp.	183,974	4,629
						* Arch Capital Group Ltd.	53,043	4,577

## Vanguard Mid-Cap Index Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
XL Group Ltd.	122,638	4,569	Cooper Cos. Inc.	22,233	3,889	Robert Half International Inc.	55,945	2,729
UDR Inc.	122,022	4,451	* Alkermes plc	69,342	3,854	ManpowerGroup Inc.	30,613	2,721
Macerich Co.	62,354	4,417	* Varian Medical Systems Inc.	42,525	3,818	Owens Corning	51,634	2,662
* E*TRADE Financial Corp.	124,931	4,329	* Jazz Pharmaceuticals plc	25,927	2,827	* First Data Corp. Class A	163,136	2,315
Duke Realty Corp.	161,575	4,291	* Mallinckrodt plc	49,012	2,442	Allison Transmission Holdings Inc.	67,717	2,281
Extra Space Storage Inc.	54,498	4,209	* Envision Healthcare Corp.	26,790	1,696	FLIR Systems Inc.	30,867	1,117
* CBRE Group Inc. Class A	130,641	4,114	Seattle Genetics Inc.	20,900	1,103	Fidelity National Information Services Inc.	2,090	158
Raymond James Financial Inc.	58,322	4,040	* Alnylam Pharmaceuticals Inc.	16,507	618			
FNF Group	118,757	4,033			116,988			247,264
Alexandria Real Estate Equities Inc.	36,191	4,022	<b>Industrials (16.5%)</b>			<b>Oil &amp; Gas (5.2%)</b>		
Zions Bancorporation	92,793	3,994	* Fiserv Inc.	98,950	10,516	* Concho Resources Inc.	66,567	8,827
CIT Group Inc.	92,102	3,931	Amphenol Corp. Class A	140,688	9,454	Marathon Oil Corp.	386,710	6,694
Ally Financial Inc.	204,085	3,882	Roper Technologies Inc.	46,214	8,461	National Oilwell Varco Inc.	172,395	6,454
Torchmark Corp.	51,402	3,791	Vulcan Materials Co.	60,290	7,545	Cimarex Energy Co.	43,279	5,882
VEREIT Inc.	444,323	3,759	Martin Marietta Materials Inc.	28,923	6,407	Devon Energy Corp.	113,311	5,175
Iron Mountain Inc.	114,212	3,710	Waste Connections Inc.	79,765	6,269	EQT Corp.	78,780	5,152
Reinsurance Group of America Inc. Class A	29,324	3,690	Fastenal Co.	131,747	6,190	Cabot Oil & Gas Corp.	211,905	4,950
* Affiliated Managers Group Inc.	24,951	3,625	* FleetCor Technologies Inc.	42,272	5,982	Tesoro Corp.	53,247	4,656
Nasdaq Inc.	52,756	3,541	Ball Corp.	79,629	5,978	Range Resources Corp.	112,725	3,873
Voya Financial Inc.	88,814	3,483	WestRock Co.	114,635	5,820	* Cheniere Energy Inc.	91,124	3,775
Brixmor Property Group Inc.	138,852	3,391	TransDigm Group Inc.	23,100	5,751	* FMC Technologies Inc.	103,005	3,660
MSCI Inc. Class A	42,813	3,373	Alliance Data Systems Corp.	25,004	5,713	Helmerich & Payne Inc.	46,778	3,621
New York Community Bancorp Inc.	211,013	3,357	* Verisk Analytics Inc. Class A	68,669	5,574	OGE Energy Corp.	91,134	3,048
Camden Property Trust	39,819	3,348	Rockwell Collins Inc.	59,440	5,514	HollyFrontier Corp.	80,605	2,641
SEI Investments Co.	65,608	3,238	Textron Inc.	110,955	5,388	Core Laboratories NV	20,067	2,409
Everest Re Group Ltd.	14,700	3,181	^ WW Grainger Inc.	23,095	5,364	* Antero Resources Corp.	100,364	2,373
WR Berkley Corp.	41,421	2,755	Dover Corp.	70,863	5,310	* Energen Corp.	22,155	1,278
People's United Financial Inc.	142,117	2,751	* AMETEK Inc.	105,496	5,127	Murphy Oil Corp.	37,352	1,163
AGNC Investment Corp.	151,015	2,738	* Mettler-Toledo International Inc.	11,958	5,005	* Weatherford International plc	222,796	1,112
Axis Capital Holdings Ltd.	40,292	2,630	Global Payments Inc.	70,111	4,866	* Continental Resources Inc.	21,415	1,104
Lazard Ltd. Class A	59,284	2,436	L-3 Communications Holdings Inc.	31,754	4,830			77,847
Arthur J Gallagher & Co.	40,519	2,105	CH Robinson Worldwide Inc.	64,570	4,730	<b>Technology (12.3%)</b>		
Jones Lang LaSalle Inc.	20,550	2,076	Masco Corp.	149,593	4,730	Western Digital Corp.	130,067	8,838
* Alleghany Corp.	3,341	2,032	Acuity Brands Inc.	20,132	4,648	Lam Research Corp.	74,270	7,853
Assurant Inc.	13,064	1,213	Cintas Corp.	38,251	4,420	* Autodesk Inc.	96,042	7,108
Navient Corp.	68,823	1,131	Expeditors International of Washington Inc.	82,292	4,358	Xilinx Inc.	115,072	6,947
* Liberty Broadband Corp. Class A	11,412	827	* Vantiv Inc. Class A	72,251	4,308	Linear Technology Corp.	109,514	6,828
Athene Holding Ltd. Class A	10,836	520	Pentair plc	74,655	4,186	Symantec Corp.	284,121	6,788
* Santander Consumer USA Holdings Inc.	24,438	330	Kansas City Southern	49,131	4,169	* Cerner Corp.	139,243	6,596
		329,952	United Rentals Inc.	38,414	4,056	Microchip Technology Inc.	98,605	6,326
<b>Health Care (7.8%)</b>			Xylem Inc.	81,840	4,053	Skyworks Solutions Inc.	84,652	6,320
* Edwards Lifesciences Corp.	97,420	9,128	Sealed Air Corp.	88,131	3,996	Motorola Solutions Inc.	75,631	6,269
CR Bard Inc.	33,512	7,529	JB Hunt Transport Services Inc.	40,824	3,963	* Citrix Systems Inc.	67,574	6,035
* Incyte Corp.	73,017	7,321	Fortune Brands Home & Security Inc.	70,438	3,766	Harris Corp.	56,676	5,808
* BioMarin Pharmaceutical Inc.	78,310	6,487	Total System Services Inc.	75,500	3,702	* Red Hat Inc.	81,826	5,703
Dentsply Sirona Inc.	105,241	6,076	* Trimble Inc.	114,370	3,448	KLA-Tencor Corp.	71,236	5,605
* Laboratory Corp. of America Holdings	46,857	6,016	Xerox Corp.	393,016	3,431	* Dell Technologies Inc. Class V	101,799	5,596
Quest Diagnostics Inc.	63,274	5,815	* Crown Holdings Inc.	63,769	3,352	* ServiceNow Inc.	71,918	5,346
* Henry Schein Inc.	36,688	5,566	Fluor Corp.	63,520	3,336	* Micron Technology Inc.	237,295	5,202
Perrigo Co. plc	62,166	5,174	* Wabtec Corp.	38,486	3,195	Seagate Technology plc	134,462	5,132
* Quintiles IMS Holdings Inc.	67,396	5,126	* Jacobs Engineering Group Inc.	55,088	3,140	* Akamai Technologies Inc.	75,006	5,001
* Hologic Inc.	126,879	5,090	* Sensata Technologies Holding NV	77,981	3,037	Maxim Integrated Products Inc.	129,322	4,988
* IDEXX Laboratories Inc.	40,942	4,801	* Stericycle Inc.	38,880	2,995	* Palo Alto Networks Inc.	39,732	4,968
* Waters Corp.	34,924	4,693	Hubbell Inc. Class B	25,250	2,947	Juniper Networks Inc.	164,598	4,652
* DaVita Inc.	71,961	4,620	* Arrow Electronics Inc.	40,884	2,915	NetApp Inc.	127,227	4,487
Universal Health Services Inc. Class B	40,776	4,338	Macquarie Infrastructure Corp.	35,535	2,903	* F5 Networks Inc.	29,784	4,310
* Centene Corp.	74,043	4,184	Flowserve Corp.	59,606	2,864	* Twitter Inc.	261,080	4,256
ResMed Inc.	64,358	3,993	B/E Aerospace Inc.	46,361	2,791	* CDK Global Inc.	68,266	4,075
			Avnet Inc.	58,348	2,778	* Synopsys Inc.	69,087	4,066
						* Workday Inc. Class A	55,729	3,683
						* ANSYS Inc.	39,441	3,648
						* Gartner Inc.	35,857	3,624
						* Splunk Inc.	61,485	3,145
						* VeriSign Inc.	40,490	3,080
						* Qorvo Inc.	58,345	3,077

## Vanguard Mid-Cap Index Portfolio

	Shares	Market Value* (\$000)
Marvell Technology Group Ltd.	175,195	2,430
Garmin Ltd.	47,250	2,291
Computer Sciences Corp.	32,079	1,906
* Nuance Communications Inc.	65,437	975
* Premier Inc. Class A	22,832	693
		<b>183,655</b>
<b>Telecommunications (1.1%)</b>		
* Level 3 Communications Inc.	131,182	7,393
* SBA Communications Corp. Class A	56,551	5,839
* Zayo Group Holdings Inc.	66,680	2,191
Frontier Communications Corp.	266,409	901
		<b>16,324</b>
<b>Utilities (5.2%)</b>		
WEC Energy Group Inc.	143,872	8,438
DTE Energy Co.	81,726	8,051
Eversource Energy	144,455	7,978
Entergy Corp.	81,595	5,995
American Water Works Co. Inc.	81,069	5,866
Ameren Corp.	110,574	5,801
ONEOK Inc.	95,955	5,509
CMS Energy Corp.	127,510	5,307
CenterPoint Energy Inc.	186,416	4,593
SCANA Corp.	58,730	4,304
Pinnacle West Capital Corp.	50,769	3,961
Alliant Energy Corp.	103,746	3,931
AES Corp.	300,702	3,494
NiSource Inc.	147,249	3,260
Avangrid Inc.	28,216	1,069
* Calpine Corp.	81,467	931
		<b>78,488</b>
<b>Total Common Stocks (Cost \$1,203,406)</b>		<b>1,488,093</b>

	Shares	Market Value* (\$000)
<b>Temporary Cash Investments (0.6%)<sup>1</sup></b>		
<b>Money Market Fund (0.6%)</b>		
<sup>2,3</sup> Vanguard Market Liquidity Fund, 0.823%	81,075	8,108
	Face Amount (\$000)	
<b>U.S. Government and Agency Obligations (0.0%)</b>		
<sup>4,5</sup> Federal Home Loan Bank Discount Notes, 0.481%, 2/17/17	200	200
<sup>5</sup> United States Treasury Bill, 0.618%, 5/25/17	100	100
		<b>300</b>
<b>Total Temporary Cash Investments (Cost \$8,408)</b>		<b>8,408</b>
<b>Total Investments (100.1%) (Cost \$1,211,814)</b>		<b>1,496,501</b>
		Amount (\$000)
<b>Other Assets and Liabilities (-0.1%)</b>		
<b>Other Assets</b>		
Investment in Vanguard		112
Receivables for Investment Securities Sold		1,412
Receivables for Accrued Income		1,876
Receivables for Capital Shares Issued		1,887
Other Assets <sup>5</sup>		19
<b>Total Other Assets</b>		<b>5,306</b>
<b>Liabilities</b>		
Payables for Investment Securities Purchased		(559)
Collateral for Securities on Loan		(2,261)
Payables for Capital Shares Redeemed		(2,406)
Payables to Vanguard		(1,300)
Other Liabilities		(33)
<b>Total Liabilities</b>		<b>(6,559)</b>
<b>Net Assets (100%)</b>		
Applicable to 70,839,182 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)		1,495,248
<b>Net Asset Value Per Share</b>		<b>\$21.11</b>

<b>At December 31, 2016, net assets consisted of:</b>	Amount (\$000)
Paid-in Capital	1,122,027
Undistributed Net Investment Income	18,025
Accumulated Net Realized Gains	70,611
Unrealized Appreciation (Depreciation)	
Investment Securities	284,687
Futures Contracts	(102)
<b>Net Assets</b>	<b>1,495,248</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

<sup>^</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$2,190,000.

<sup>1</sup> The portfolio invests a portion of its cash reserves in equity markets through the use of index futures contracts. After giving effect to future investments, the portfolio's effective common stock and temporary cash investment positions represent 100.0% and 0.1%, respectively, of net assets.

<sup>2</sup> Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

<sup>3</sup> Includes \$2,261,000 of collateral received for securities on loan.

<sup>4</sup> The issuer operates under a congressional charter; its securities are generally neither guaranteed by the U.S. Treasury nor backed by the full faith and credit of the U.S. government.

<sup>5</sup> Securities with a value of \$300,000 and cash of \$17,000 have been segregated as initial margin for open futures contracts.

See accompanying Notes, which are an integral part of the Financial Statements.

## Statement of Operations

	Year Ended December 31, 2016 (\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends	21,965
Interest <sup>1</sup>	21
Securities Lending—Net	189
Total Income	22,175
<b>Expenses</b>	
The Vanguard Group—Note B	
Investment Advisory Services	206
Management and Administrative	2,021
Marketing and Distribution	282
Custodian Fees	67
Auditing Fees	35
Shareholders' Reports	30
Trustees' Fees and Expenses	1
Total Expenses	2,642
<b>Net Investment Income</b>	<b>19,533</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold <sup>1</sup>	69,643
Futures Contracts	1,022
<b>Realized Net Gain (Loss)</b>	<b>70,665</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	57,800
Futures Contracts	(102)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>57,698</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>147,896</b>

<sup>1</sup> Interest income and realized net gain (loss) from an affiliated company of the portfolio were \$20,000 and \$1,000, respectively.

## Statement of Changes in Net Assets

	Year Ended December 31, 2016      2015 (\$000)      (\$000)	
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	19,533	19,073
Realized Net Gain (Loss)	70,665	94,508
Change in Unrealized Appreciation (Depreciation)	57,698	(135,451)
Net Increase (Decrease) in Net Assets Resulting from Operations	147,896	(21,870)
<b>Distributions</b>		
Net Investment Income	(18,997)	(16,326)
Realized Capital Gain <sup>1</sup>	(94,466)	(73,163)
Total Distributions	(113,463)	(89,489)
<b>Capital Share Transactions</b>		
Issued	179,071	225,446
Issued in Lieu of Cash Distributions	113,463	89,489
Redeemed	(195,109)	(203,732)
Net Increase (Decrease) from Capital Share Transactions	97,425	111,203
Total Increase (Decrease)	131,858	(156)
<b>Net Assets</b>		
Beginning of Period	1,363,390	1,363,546
End of Period <sup>2</sup>	1,495,248	1,363,390

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$0 and \$2,315,000, respectively. Short-term gain distributions are treated as ordinary income for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$18,025,000 and \$17,489,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$20.76</b>	<b>\$22.49</b>	<b>\$20.77</b>	<b>\$16.13</b>	<b>\$14.49</b>
<b>Investment Operations</b>					
Net Investment Income	.280	.291	.266	.203	.205
Net Realized and Unrealized Gain (Loss) on Investments	1.814	(.552)	2.446	5.262	2.071
Total from Investment Operations	2.094	(.261)	2.712	5.465	2.276
<b>Distributions</b>					
Dividends from Net Investment Income	(.292)	(.268)	(.200)	(.200)	(.178)
Distributions from Realized Capital Gains	(1.452)	(1.201)	(.792)	(.625)	(.458)
Total Distributions	(1.744)	(1.469)	(.992)	(.825)	(.636)
<b>Net Asset Value, End of Period</b>	<b>\$21.11</b>	<b>\$20.76</b>	<b>\$22.49</b>	<b>\$20.77</b>	<b>\$16.13</b>
<b>Total Return</b>	<b>11.11%</b>	<b>-1.43%</b>	<b>13.59%</b>	<b>34.93%</b>	<b>15.82%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$1,495	\$1,363	\$1,364	\$1,172	\$820
Ratio of Total Expenses to Average Net Assets	0.19%	0.19%	0.24%	0.25%	0.26%
Ratio of Net Investment Income to Average Net Assets	1.40%	1.35%	1.29%	1.15%	1.30%
Portfolio Turnover Rate	21%	23%	16%	35%	23%

See accompanying Notes, which are an integral part of the Financial Statements.



## Notes to Financial Statements

Vanguard Mid-Cap Index Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objectives of maintaining full exposure to the stock market, enhancing returns, maintaining liquidity, and minimizing transaction costs. The portfolio may purchase futures contracts to immediately invest incoming cash in the market, or sell futures in response to cash outflows, thereby simulating a fully invested position in the underlying index while maintaining a cash balance for liquidity. The portfolio may seek to enhance returns by using futures contracts instead of the underlying securities when futures are believed to be priced more attractively than the underlying securities. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract.

Futures contracts are valued at their quoted daily settlement prices. The aggregate settlement values of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2016, the portfolio's average investments in long and short futures contracts represented less than 1% and 0% of net assets, respectively, based on the average of aggregate settlement values at each quarter-end during the period.

3. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

5. **Securities Lending:** To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a



counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the absence of a default the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

**6. Credit Facility:** The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and included in Management and Administrative expenses on the portfolio's Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.

**7. Other:** Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

**B.** In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$112,000, representing 0.01% of the portfolio's net assets and 0.04% of Vanguard's capitalization. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

**C.** Various inputs may be used to determine the value of the portfolio's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio's own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,488,093	—	—
Temporary Cash Investments	8,108	300	—
Futures Contracts—Liabilities <sup>1</sup>	(24)	—	—
Total	1,496,177	300	—

<sup>1</sup> Represents variation margin on the last day of the reporting period.

D. At December 31, 2016, the aggregate settlement value of open futures contracts and the related unrealized appreciation (depreciation) were:

			(\$000)	
Futures Contracts	Expiration	Number of Long (Short) Contracts	Aggregate Settlement Value Long (Short)	Unrealized Appreciation (Depreciation)
E-mini S&P Mid-Cap 400 Index	March 2017	29	4,811	(92)
E-mini S&P 500 Index	March 2017	17	1,901	(10)
				(102)

Unrealized appreciation (depreciation) on open futures contracts is required to be treated as realized gain (loss) for tax purposes.

E. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For tax purposes, at December 31, 2016, the portfolio had \$20,374,000 of ordinary income and \$69,319,000 of long-term capital gains available for distribution.

At December 31, 2016, the cost of investment securities for tax purposes was \$1,211,814,000. Net unrealized appreciation of investment securities for tax purposes was \$284,687,000, consisting of unrealized gains of \$336,642,000 on securities that had risen in value since their purchase and \$51,955,000 in unrealized losses on securities that had fallen in value since their purchase.

F. During the year ended December 31, 2016, the portfolio purchased \$291,091,000 of investment securities and sold \$292,900,000 of investment securities, other than temporary cash investments.

The fund purchased securities from and sold securities to other Vanguard funds or accounts managed by Vanguard or its affiliates, in accordance with procedures adopted by the board of trustees in compliance with Rule 17a-7 of the Investment Company Act of 1940. For the year ended December 31, 2016, such purchases and sales were \$19,961,000 and \$46,660,000, respectively; these amounts are included in the purchases and sales of investment securities noted above.

G. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016	2015
	Shares (000)	Shares (000)
Issued	8,958	10,312
Issued in Lieu of Cash Distributions	6,032	4,130
Redeemed	(9,815)	(9,404)
Net Increase (Decrease) in Shares Outstanding	5,175	5,038

At December 31, 2016, one shareholder, an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders, was the record or beneficial owner of 47% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

H. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of Mid-Cap Index Portfolio:

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Mid-Cap Index Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers and by agreement to the underlying ownership records of the transfer agent, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

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### Special 2016 tax information (unaudited) for corporate shareholders only for Vanguard Mid-Cap Index Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2016, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$94,466,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 82.8% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

## About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
Mid-Cap Index Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,073.75	\$0.99
Based on Hypothetical 5% Yearly Return	1,000.00	1,024.18	0.97

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.19%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

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**This material may be used in conjunction with the offering of shares of any Vanguard fund only if preceded or accompanied by the fund's current prospectus.**

You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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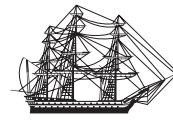
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**Vanguard®**



**Annual Report** | December 31, 2016

# Vanguard Variable Insurance Fund

REIT Index Portfolio



# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

**Goals.** Create clear, appropriate investment goals.

**Balance.** Develop a suitable asset allocation using broadly diversified funds.

**Cost.** Minimize cost.

**Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

**Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.**

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### **Expect stabilization, not stagnation**

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### **Focus on keys to investment success**

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017

## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® REIT Index Portfolio

Real estate investment trusts posted moderate returns and trailed the broad U.S. stock market in 2016 as rising interest rates limited their investment appeal later in the year. For the 12 months ended December 31, 2016, Vanguard REIT Index Portfolio returned 8.36%, in line with its target index and 2 percentage points higher than the average of its peer funds.

The table below shows the returns of your portfolio and its comparative standards for the period. For additional perspective, we also present the portfolio's annualized returns for the ten years ended December 31, 2016.

Please note that the portfolio returns in Vanguard Variable Insurance Fund are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

## After seven strong months, REITs gave back some gains

REITs returned over 18% for the first seven months of the fiscal year as a combination of economic trends and monetary policies exerted downward pressure on interest rates, causing bond

yields to fall in the United States and in many international markets. As a result, investors favored assets that generated regular income, including REITs, which are required to pay out at least 90% of their income as investor dividends.

Over the year's final five months, however, REITs returned about -8%. Their attractiveness faded as interest rates rose and the Federal Reserve signaled December's rate hike. Higher interest rates raise REITs' debt financing costs, eroding profit margins. Also, investors could swap REITs for income-generating investments that bear less risk.

Some of this period of decline coincided with the establishment of REITs as an 11th industry sector by Standard & Poor's Dow Jones Indices and MSCI. Prior to market close on August 31, 2016, REITs were considered part of the financial sector.

Even with the downturn, all eight subsets of the REIT market finished the period in positive territory. Industrial REITs, with a return of about 30%, led the way, helped by the expansion of warehouse and distribution centers needed to accommodate the growth in online sales. Hotel

and resort REITs returned 24%, lifted by optimism about lower fuel prices and consumers' increased willingness to travel.

Specialized REITs, which include storage facilities, data centers, and entertainment and athletic complexes, climbed almost 9%; as it is one of the sector's largest segments, this solid return boosted overall returns. Diversified REITs (more than 16%), which include different types of properties, office REITs (11%), health care REITs (7%), and residential REITs (roughly 5%) also contributed to the positive outcome.

The sector's largest group, retail REITs, clung to a gain of less than 1%, held back by a general decline in the popularity of malls, store closures by national retailers, and the rise of online shopping.

## After two dismal years, the portfolio rebounded

Vanguard REIT Index Portfolio registered an average annual return of 5.00% over the decade ended December 31, 2016, tightly tracking its benchmark and exceeding the average annual return of its peers by more than 1 percentage point.

After it endured steep declines in 2007 and 2008 during the subprime mortgage collapse that precipitated the global financial crisis, the portfolio has notched eight straight years of positive returns. Volatility is to be expected for any investment that focuses on a specific industry.

First and foremost, the portfolio's objective is to track the index closely, and its success in doing so is a testament to the expertise and experience of the portfolio's advisor, Vanguard Equity Index Group. This group of professionals uses well-honed portfolio-construction and trading methodologies that have allowed Vanguard to provide effective index tracking regardless of the market's direction or its level of volatility. The portfolio's low costs have also helped close the gap between the index's results and your returns.

### Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016 Average Annual Return
Vanguard REIT Index Portfolio	8.36%	5.00%
REIT Spliced Index <sup>1</sup>	8.60	5.20
Variable Insurance Real Estate Funds Average <sup>2</sup>	6.36	3.58

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>3</sup>	Variable Insurance Real Estate Funds Average <sup>4</sup>
REIT Index Portfolio	0.27%	1.10%



<sup>1</sup> MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index thereafter.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>3</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the portfolio's expense ratio was 0.27%.

<sup>4</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.

## Portfolio Profile

As of December 31, 2016

### Portfolio Characteristics

	Portfolio	Comparative Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Stocks	155	154	3,833
Median Market Cap	\$10.1B	\$10.1B	\$54.1B
Price/Earnings Ratio	29.2x	29.2x	24.4x
Price/Book Ratio	2.4x	2.4x	2.8x
Dividend Yield <sup>3</sup>	3.9%	3.9%	2.0%
Return on Equity	8.4%	8.4%	16.5%
Earnings Growth Rate	17.4%	17.4%	8.2%
Foreign Holdings	0.0%	0.0%	0.0%
Turnover Rate	14%	—	—
Expense Ratio <sup>4</sup>	0.27%	—	—
Short-Term Reserves	0.0%	—	—

### Volatility Measures

	Portfolio Versus Comparative Index <sup>1</sup>	Portfolio Versus Broad Index <sup>2</sup>
R-Squared	1.00	0.20
Beta	1.00	0.61

### Portfolio Allocation by REIT Type

Retail	22.4%
Residential	15.9
Office	13.5
Health Care	12.0
Specialized	16.2
Hotel & Resort	6.2
Diversified	7.3
Industrial	6.5

### Ten Largest Holdings<sup>5</sup> (% of total net assets)

Simon Property Group Inc.	Retail REITs	6.9%
Public Storage	Specialized REITs	4.1
Prologis Inc.	Industrial REITs	3.4
Equinix Inc.	Specialized REITs	3.1
AvalonBay Communities Inc.	Residential REITs	3.0
Welltower Inc.	Health Care REITs	3.0
Equity Residential	Residential REITs	2.9
Ventas Inc.	Health Care REITs	2.7
Boston Properties Inc.	Office REITs	2.4
Vornado Realty Trust	Office REITs	2.2
Top Ten		33.7%

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Dividend Yield.** Dividend income earned by stocks, expressed as a percentage of the aggregate market value (or of net asset value, for a portfolio). The yield is determined by dividing the amount of the annual dividends by the aggregate value (or net asset value) at the end of the period. For a portfolio, the dividend yield is based solely on stock holdings and does not include any income produced by other investments.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> MSCI US REIT Index.

<sup>2</sup> Dow Jones U.S. Total Stock Market Float Adjusted Index.

<sup>3</sup> This dividend yield may include some payments that represent a return of capital, capital gains distribution, or both by the underlying REITs. These amounts are determined by each REIT at the end of its fiscal year.

<sup>4</sup> The expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the REIT Index Portfolio's expense ratio was 0.27%.

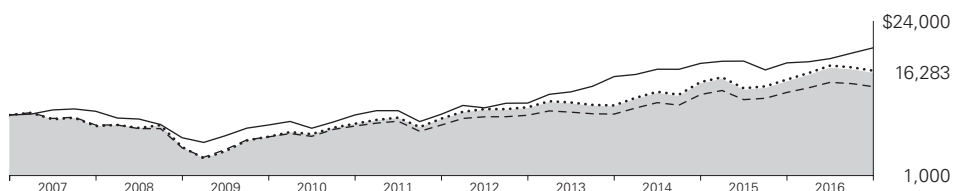
<sup>5</sup> The holdings listed exclude any temporary cash investments and equity index products.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

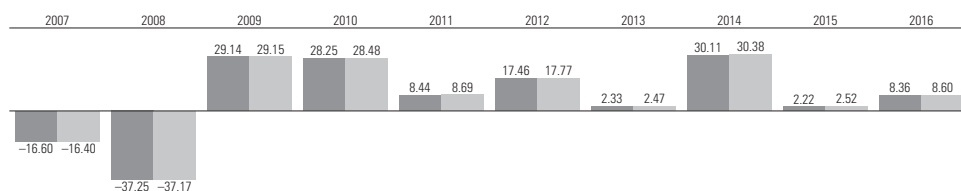
### Cumulative Performance: December 31, 2006–December 31, 2016

Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
REIT Index Portfolio	8.36%	11.61%	5.00%	\$16,283
REIT Spliced Index <sup>1</sup>	8.60	11.86	5.20	16,596
Variable Insurance Real Estate Funds Average <sup>2</sup>	6.36	10.79	3.58	14,217
Dow Jones U.S. Total Stock Market Float Adjusted Index	12.62	14.59	7.18	20,003

### Fiscal Year Total Returns (%): December 31, 2006–December 31, 2016



REIT Index Portfolio

REIT Spliced Index<sup>1</sup>

<sup>1</sup> MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index thereafter.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

See Financial Highlights for dividend and capital gains information.

## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Equity Real Estate Investment Trusts (REITs) (100.1%)</b>								
<b>Diversified REITs (7.3%)</b>								
VEREIT Inc.	1,306,743	11,055	Universal Health Realty Income Trust	17,377	1,140	Douglas Emmett Inc.	193,927	7,090
WP Carey Inc.	135,843	8,027	New Senior Investment Group Inc.	105,124	1,029	Highwoods Properties Inc.	133,298	6,799
Liberty Property Trust	198,449	7,839			130,729	Hudson Pacific Properties Inc.	175,957	6,120
Spirit Realty Capital Inc.	648,528	7,043	<b>Hotel &amp; Resort REITs (6.2%)</b>			* Equity Commonwealth	161,804	4,893
Forest City Realty Trust Inc. Class A	326,462	6,803	Host Hotels & Resorts Inc.	1,004,469	18,924	Piedmont Office Realty Trust Inc. Class A	196,985	4,119
Gramercy Property Trust	572,421	5,255	Hospitality Properties Trust	219,790	6,976	Cousins Properties Inc.	479,208	4,078
STORE Capital Corp.	207,889	5,137	LaSalle Hotel Properties	153,336	4,672	Corporate Office Properties Trust	128,490	4,011
NorthStar Realty Finance Corp.	245,137	3,714	Apple Hospitality REIT Inc.	225,079	4,497	Brandywine Realty Trust	237,516	3,921
Empire State Realty Trust Inc.	166,116	3,354	Sunstone Hotel Investors Inc.	293,743	4,480	Paramount Group Inc.	238,315	3,811
Washington REIT	99,903	3,266	RLJ Lodging Trust	168,660	4,130	Columbia Property Trust Inc.	159,152	3,438
PS Business Parks Inc.	27,538	3,209	Ryman Hospitality Properties Inc.	62,194	3,919	Mack-Cali Realty Corp.	115,626	3,355
Lexington Realty Trust	289,376	3,125	DiamondRock Hospitality Co.	272,556	3,143	New York REIT Inc.	225,026	2,277
Select Income REIT	90,883	2,290	Pebblebrook Hotel Trust	97,719	2,907	Government Properties Income Trust	96,516	1,840
American Assets Trust Inc.	46,138	1,987	Xenia Hotels & Resorts Inc.	145,982	2,835	Franklin Street Properties Corp.	136,363	1,767
* Global Net Lease Inc.	229,230	1,795	Chesapeake Lodging Trust	81,545	2,109	* Parkway Inc.	59,576	1,326
iStar Inc.	96,583	1,195	MGM Growth Properties LLC Class A	78,025	1,975	Tier REIT Inc.	64,697	1,125
Investors Real Estate Trust	162,031	1,155	Summit Hotel Properties Inc.	117,847	1,889	NorthStar Realty Europe Corp.	82,545	1,038
First Potomac Realty Trust	79,304	870	FelCor Lodging Trust Inc.	178,123	1,427	Easterly Government Properties Inc.	47,743	956
Armada Hoffler Properties Inc.	45,298	660	Hersha Hospitality Trust Class A	57,529	1,237			147,618
Gladstone Commercial Corp.	31,950	642	Chatham Lodging Trust	51,976	1,068	<b>Residential REITs (15.9%)</b>		
Whitestone REIT	38,876	559	Ashford Hospitality Trust Inc.	130,795	1,015	AvalonBay Communities Inc.	185,783	32,911
One Liberty Properties Inc.	17,617	442	Ashford Hospitality Prime Inc.	31,296	427	Equity Residential	494,831	31,847
RAIT Financial Trust	121,023	407			67,630	Essex Property Trust Inc.	88,616	20,603
ESCROW WINTHROP REALTYTRUST	32,397	260	<b>Industrial REITs (6.5%)</b>			Mid-America Apartment Communities Inc.	153,739	15,054
		80,089	Prologis Inc.	713,356	37,658	UDR Inc.	361,609	13,192
<b>Health Care REITs (12.0%)</b>			Duke Realty Corp.	474,975	12,615	Camden Property Trust	118,212	9,938
Welltower Inc.	484,440	32,423	DCT Industrial Trust Inc.	122,272	5,855	Apartment Investment & Management Co.	211,391	9,608
Ventas Inc.	475,460	29,726	First Industrial Realty Trust Inc.	158,549	4,447	American Campus Communities Inc.	176,510	8,785
HCP Inc.	633,392	18,824	EastGroup Properties Inc.	44,540	3,289	Equity LifeStyle Properties Inc.	109,552	7,899
Omega Healthcare Investors Inc.	261,667	8,180	STAG Industrial Inc.	96,978	2,315	Sun Communities Inc.	92,889	7,116
Senior Housing Properties Trust	320,898	6,075	Rexford Industrial Realty Inc.	89,552	2,077	American Homes 4 Rent Class A	289,015	6,064
Healthcare Trust of America Inc. Class A	186,337	5,424	Terreco Realty Corp.	62,591	1,783	Education Realty Trust Inc.	98,579	4,170
Medical Properties Trust Inc.	408,140	5,020	Monmouth Real Estate Investment Corp.	82,761	1,261	Colony Starwood Homes	89,525	2,579
Healthcare Realty Trust Inc.	157,199	4,766			71,300	Monogram Residential Trust Inc.	214,984	2,326
National Health Investors Inc.	53,147	3,942	<b>Office REITs (13.5%)</b>			Independence Realty Trust Inc.	88,532	790
Physicians Realty Trust	182,603	3,462	Boston Properties Inc.	208,132	26,179	Silver Bay Realty Trust Corp.	45,567	781
Care Capital Properties Inc.	113,903	2,848	Vornado Realty Trust	229,832	23,988	NexPoint Residential Trust Inc.	20,696	462
LTC Properties Inc.	51,700	2,429	SL Green Realty Corp.	135,883	14,614			174,125
Sabra Health Care REIT Inc.	88,484	2,161	Alexandria Real Estate Equities Inc.	105,601	11,735			
* Quality Care Properties Inc.	126,398	1,959	Kilroy Realty Corp.	124,799	9,138			
CareTrust REIT Inc.	86,226	1,321						



	Shares	Market Value* (\$000)
<b>Retail REITs (22.5%)</b>		
Simon Property Group Inc.	425,293	75,562
Realty Income Corp.	350,236	20,132
General Growth Properties Inc.	777,955	19,433
Kimco Realty Corp.	568,859	14,313
Federal Realty Investment Trust	96,722	13,745
Macerich Co.	165,306	11,710
Brixmor Property Group Inc.	411,803	10,056
Regency Centers Corp.	141,456	9,753
National Retail Properties Inc.	199,117	8,801
DDR Corp.	420,283	6,418
Taubman Centers Inc.	81,863	6,052
Weingarten Realty Investors	164,005	5,870
Retail Properties of America Inc.	320,415	4,912
Tanger Factory Outlet Centers Inc.	130,319	4,663
Equity One Inc.	126,867	3,894
Urban Edge Properties	134,866	3,710
Acadia Realty Trust	109,241	3,570
Retail Opportunity Investments Corp.	147,706	3,121
CBL & Associates Properties Inc.	231,662	2,664
Kite Realty Group Trust	113,052	2,654
Washington Prime Group Inc.	251,461	2,618
Ramco-Gershenson Properties Trust	107,457	1,782
Pennsylvania REIT	93,896	1,780
Agree Realty Corp.	34,829	1,604
Alexander's Inc.	3,109	1,327
<b>^ Seritage Growth Properties</b>		
Class A	30,319	1,295
Saul Centers Inc.	17,358	1,156
Urstadt Biddle Properties Inc. Class A	39,678	957
Getty Realty Corp.	36,612	933
Cedar Realty Trust Inc.	111,340	727
		<b>245,212</b>
<b>Specialized REITs (16.2%)</b>		
Public Storage	199,529	44,595
Equinix Inc.	96,202	34,384
Digital Realty Trust Inc.	215,792	21,204
Extra Space Storage Inc.	170,370	13,159
Iron Mountain Inc.	338,522	10,995
Gaming and Leisure Properties Inc.	265,785	8,138
CubeSmart	242,947	6,504
EPR Properties	86,248	6,190
Life Storage Inc.	62,594	5,337
CyrusOne Inc.	101,911	4,558

	Shares	Market Value* (\$000)
DuPont Fabros Technology Inc.	102,248	4,492
CoreCivic Inc.	159,464	3,900
GEO Group Inc.	101,722	3,655
CoreSite Realty Corp.	46,044	3,654
QTS Realty Trust Inc. Class A	64,654	3,210
Four Corners Property Trust Inc.	76,392	1,568
National Storage Affiliates Trust	57,456	1,268
		<b>176,811</b>
<b>Total Equity Real Estate Investment Trusts (REITs) (Cost \$1,058,871)</b>		
		<b>1,093,514</b>
<b>Temporary Cash Investments (0.0%)</b>		
<b>Money Market Fund (0.0%)</b>		
<sup>1,2</sup> Vanguard Market Liquidity Fund, 0.823%	748	75
	Face Amount (\$000)	
<b>U.S. Government and Agency Obligations (0.0%)</b>		
United States Treasury Bill, 0.566%, 5/4/17	100	100
<b>Total Temporary Cash Investments (Cost \$175)</b>		
		<b>175</b>
<b>Total Investments (100.1%) (Cost \$1,059,046)</b>		
		<b>1,093,689</b>
		Amount (\$000)
<b>Other Assets and Liabilities (-0.1%)</b>		
<b>Other Assets</b>		
Investment in Vanguard		79
Receivables for Investment Securities Sold		2,367
Receivables for Accrued Income		5,299
Receivables for Capital Shares Issued		344
<b>Total Other Assets</b>		
		<b>8,089</b>
<b>Liabilities</b>		
Payables for Investment Securities Purchased		(2,283)
Collateral for Securities on Loan		(75)
Payables for Capital Shares Redeemed		(1,545)
Payables to Vanguard		(883)
Other Liabilities		(4,024)
<b>Total Liabilities</b>		
		<b>(8,810)</b>
<b>Net Assets (100%)</b>		
<b>Applicable to 81,094,724 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)</b>		
		<b>1,092,968</b>
<b>Net Asset Value Per Share</b>		
		<b>\$13.48</b>

<b>At December 31, 2016, net assets consisted of:</b>	
	Amount (\$000)
Paid-in Capital	984,973
Undistributed Net Investment Income	25,773
Accumulated Net Realized Gains	47,579
Unrealized Appreciation (Depreciation)	34,643
<b>Net Assets</b>	<b>1,092,968</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

<sup>^</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$73,000.

<sup>1</sup> Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

<sup>2</sup> Includes \$75,000 of collateral received for securities on loan.

REIT—Real Estate Investment Trust.

See accompanying Notes, which are an integral part of the Financial Statements.



## Statement of Operations

	Year Ended December 31, 2016 (\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends	29,725
Interest <sup>1</sup>	5
Securities Lending—Net	22
<b>Total Income</b>	<b>29,752</b>
<b>Expenses</b>	
The Vanguard Group—Note B	
Investment Advisory Services	156
Management and Administrative	2,353
Marketing and Distribution	224
Custodian Fees	54
Auditing Fees	37
Shareholders' Reports	21
Trustees' Fees and Expenses	1
<b>Total Expenses</b>	<b>2,846</b>
<b>Net Investment Income</b>	<b>26,906</b>
<b>Realized Net Gain (Loss)</b>	
Capital Gain Distributions Received	12,548
Investment Securities Sold <sup>1</sup>	35,163
Futures Contracts	1
<b>Realized Net Gain (Loss)</b>	<b>47,712</b>
<b>Change in Unrealized Appreciation (Depreciation) of Investment Securities</b>	<b>1,311</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>75,929</b>

<sup>1</sup> Interest income and realized net gain (loss) from an affiliated company of the portfolio were \$4,000 and \$0, respectively.

## Statement of Changes in Net Assets

	Year Ended December 31, 2016      2015 (\$000)      (\$000)	
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	26,906	26,139
Realized Net Gain (Loss)	47,712	69,224
Change in Unrealized Appreciation (Depreciation)	1,311	(76,645)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>75,929</b>	<b>18,718</b>
<b>Distributions</b>		
Net Investment Income	(26,115)	(18,254)
Realized Capital Gain <sup>1</sup>	(69,291)	(34,545)
<b>Total Distributions</b>	<b>(95,406)</b>	<b>(52,799)</b>
<b>Capital Share Transactions</b>		
Issued	205,902	189,377
Issued in Lieu of Cash Distributions	95,406	52,799
Redeemed	(179,279)	(227,024)
<b>Net Increase (Decrease) from Capital Share Transactions</b>	<b>122,029</b>	<b>15,152</b>
<b>Total Increase (Decrease)</b>	<b>102,552</b>	<b>(18,929)</b>
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>990,416</b>	<b>1,009,345</b>
<b>End of Period<sup>2</sup></b>	<b>1,092,968</b>	<b>990,416</b>

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$1,741,000 and \$1,018,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$25,773,000 and \$24,982,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$13.77</b>	<b>\$14.17</b>	<b>\$11.87</b>	<b>\$12.12</b>	<b>\$10.90</b>
<b>Investment Operations</b>					
Net Investment Income	.346	.358	.307	.308	.264
Net Realized and Unrealized Gain (Loss) on Investments	.734	(.032)	3.061	.002	1.594
Total from Investment Operations	1.080	.326	3.368	.310	1.858
<b>Distributions</b>					
Dividends from Net Investment Income	(.375)	(.251)	(.367)	(.255)	(.233)
Distributions from Realized Capital Gains	(.995)	(.475)	(.701)	(.305)	(.405)
Total Distributions	(1.370)	(.726)	(1.068)	(.560)	(.638)
<b>Net Asset Value, End of Period</b>	<b>\$13.48</b>	<b>\$13.77</b>	<b>\$14.17</b>	<b>\$11.87</b>	<b>\$12.12</b>
<b>Total Return</b>	<b>8.36%</b>	<b>2.22%</b>	<b>30.11%</b>	<b>2.33%</b>	<b>17.46%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$1,093	\$990	\$1,009	\$655	\$644
Ratio of Total Expenses to Average Net Assets	0.27%	0.27%	0.27%	0.27%	0.28%
Ratio of Net Investment Income to Average Net Assets	2.55%	2.60%	3.96%	2.50%	2.36%
Portfolio Turnover Rate	14%	21%	11%	19%	8%

See accompanying Notes, which are an integral part of the Financial Statements.

## Notes to Financial Statements

Vanguard REIT Index Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objectives of maintaining full exposure to the stock market, enhancing returns, maintaining liquidity, and minimizing transaction costs. The portfolio may purchase futures contracts to immediately invest incoming cash in the market, or sell futures in response to cash outflows, thereby simulating a fully invested position in the underlying index while maintaining a cash balance for liquidity. The portfolio may seek to enhance returns by using futures contracts instead of the underlying securities when futures are believed to be priced more attractively than the underlying securities. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract.

Futures contracts are valued at their quoted daily settlement prices. The aggregate settlement values of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2016, the portfolio's average investments in long and short futures contracts represented less than 1% and 0% of net assets, respectively, based on the average of aggregate settlement values at each quarter-end during the period. The portfolio had no open futures contracts at December 31, 2016.

3. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

5. **Securities Lending:** To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount

owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the absence of a default the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

6. Credit Facility: The portfolio and certain other funds managed by The Vanguard Group (“Vanguard”) participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio’s regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio’s board of trustees and included in Management and Administrative expenses on the portfolio’s Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.

7. Other: Distributions received from REITs are recorded on the ex-dividend date. Each REIT reports annually the tax character of its distributions. Dividend income, capital gain distributions received, and unrealized appreciation (depreciation) reflect the amounts of taxable income, capital gain, and return of capital reported by the REITs, and management’s estimates of such amounts for REIT distributions for which actual information has not been reported. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. In accordance with the terms of a Funds’ Service Agreement (the “FSA”) between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard’s cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio’s liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$79,000, representing 0.01% of the portfolio’s net assets and 0.03% of Vanguard’s capitalization. The portfolio’s trustees and officers are also directors and employees, respectively, of Vanguard.

C. Various inputs may be used to determine the value of the portfolio’s investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio’s own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,093,254	—	260
Temporary Cash Investments	75	100	—
Total	1,093,329	100	260

D. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For tax purposes, at December 31, 2016, the portfolio had \$27,307,000 of ordinary income and \$46,790,000 of long-term capital gains available for distribution.

At December 31, 2016, the cost of investment securities for tax purposes was \$1,059,046,000. Net unrealized appreciation of investment securities for tax purposes was \$34,643,000, consisting of unrealized gains of \$113,829,000 on securities that had risen in value since their purchase and \$79,186,000 in unrealized losses on securities that had fallen in value since their purchase.

E. During the year ended December 31, 2016, the portfolio purchased \$221,685,000 of investment securities and sold \$146,054,000 of investment securities, other than temporary cash investments.

F. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016 Shares (000)	2015 Shares (000)
Issued	15,209	13,620
Issued in Lieu of Cash Distributions	7,442	3,777
Redeemed	(13,487)	(16,709)
Net Increase (Decrease) in Shares Outstanding	9,164	688

At December 31, 2016, one shareholder, an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders, was the record or beneficial owner of 49% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

G. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of REIT Index Portfolio:

In our opinion, the accompanying statement of net assets and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of REIT Index Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers and by agreement to the underlying ownership records of the transfer agent, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

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### Special 2016 tax information (unaudited) for corporate shareholders only for Vanguard REIT Index Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2016, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$67,550,000 as capital gain dividends (from net long-term capital gains) to shareholders during the fiscal year. The portfolio designates \$65,320,000 of its capital gain dividends as 20% rate gain distributions and \$2,230,000 as unrecaptured section 1250 gain distributions (25% rate gain).

## About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
REIT Index Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$955.35	\$1.33
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.78	1.37

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.27%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

**Fund Information** > 800-662-7447

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**This material may be used in conjunction with the offering of shares of any Vanguard fund only if preceded or accompanied by the fund's current prospectus.**

You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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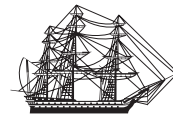
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**Vanguard®**



**Annual Report** | December 31, 2016

## Vanguard Variable Insurance Fund

Small Company Growth Portfolio

# Vanguard’s Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard’s research and experience, can put you on the right path.

- Goals.** Create clear, appropriate investment goals.
- Balance.** Develop a suitable asset allocation using broadly diversified funds.
- Cost.** Minimize cost.
- Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: No matter what language you speak, Vanguard has one consistent message and set of principles. Our primary *focus* is on you, our clients. We conduct our business with *integrity* as a faithful *steward* of your assets. This message is shown translated into seven languages, reflecting our expanding global presence.

## A Message from Vanguard's Chairman



Dear Planholder,

**Capital markets reacted in 2016 to two significant and unexpected events—the United Kingdom's vote to exit the European Union and the election of Donald Trump as U.S. president. Despite some short-term volatility following both events, the markets' performance for the calendar year proved less dramatic. U.S. stocks posted healthy returns, and U.S. bond results were close to their long-term averages. International stocks and bonds also advanced, although returns for U.S. investors were reduced by the strength of the U.S. dollar.**

The surprises of 2016 remind us to be skeptical of overly precise predictions about 2017. For example, market prognosticators often forecast where the Standard & Poor's 500 Index or the yield of the 10-year U.S. Treasury note will end up in 12 months. Such predictions can be attention-getting. They can also be dead wrong.

Investors are better off taking note of long-term trends that stand to influence our economies and markets. We're watching these trends closely, and we discuss our latest assessment in our 2017 economic and market outlook, which you can read at [vanguard.com/research](http://vanguard.com/research).

### **Expect stabilization, not stagnation**

One phenomenon in particular that we're watching is the low-growth, low-interest-rate environment that has marked the global economy since the 2008–09 financial crisis. We don't think this economic backdrop is simply a result of cyclically weak demand or long-term stagnation. Instead, falling technology costs are restraining businesses' capital investment, an aging population is weighing on growth

in the developed world, and the free movement of capital and products across the globe has restrained prices and wages.

In the near term, these forces will continue to dampen growth, inflation, and interest rates. They also make it unlikely that further monetary stimulus from central banks will do much to spur growth.

I realize this all may sound gloomy, but that's not how we see it. In fact, we believe that global growth could pick up modestly over time. Our expectation is based on a potential rebound in productivity as new digital technologies are used more effectively. We also anticipate a slight recovery in the U.S. labor force as the baby boom generation finishes its transition to retirement, nudging up demand for workers.

The U.S. economy remains firmly on a long-term growth path of about 2% per year. That's lower than the historical average of 3.25% since 1950. But we see such growth at the current level as fundamentally sound rather than abnormally low. Our evaluation takes into account lower U.S. population growth and the reality that the economic expansion that took place from the 1980s until the financial crisis was fueled by debt, distorting the numbers.

Turning to prices, we think that core U.S. inflation should modestly exceed 2% in 2017. That, in turn, will support further interest rate increases by the Federal Reserve, similar to the one it enacted in December. We expect the Fed to raise rates in 2017 before taking an extended pause, and we see the federal funds rate staying below 2% through at least 2018.

Vanguard's outlook for global stocks and bonds remains the most guarded in ten years, given fairly high stock valuations and low interest rates. Our outlook for global equities isn't bearish but rather is fairly positive when you take into account the low-rate environment. And with global bonds, we don't expect yields to increase materially from their year-end 2016 levels.

### **Focus on keys to investment success**

Significant trends often happen gradually. Like shifting tides, they're sometimes barely noticeable at first but ultimately can change the landscape entirely. No matter what the future holds, we believe that investors have the best chance for success if they concentrate on what they can control: their goals, asset allocation, and investment costs, along with the discipline to stick to a plan.

As Tim Buckley, our chief investment officer, likes to say, this can be easy to say but harder to do, especially in times of uncertainty. Investors who can stay focused on these four keys will find themselves well-positioned to weather any market.

As always, thank you for investing with Vanguard.

Sincerely,

F. William McNabb III  
Chairman and Chief Executive Officer  
January 12, 2017



## Market Perspective

### Stocks ended 2016 with a rally, while bonds trimmed earlier gains

After posting modest gains in the first three quarters of 2016, stocks closed the year with a rally following the U.S. presidential election. In contrast, bonds started with notable price gains but reversed course by the fourth quarter, ending with annual returns that were positive, but lower than those compiled over the first nine months.

The broad U.S. stock market, as measured by the Russell 3000 Index, finished the year up 12.74%. The possibility of less government regulation, more fiscal stimulus in the form of infrastructure spending, and tax-law changes under a new administration contributed to stocks' late advance. Also, the economy continued expanding and corporate earnings began to rise as 2016 progressed.

U.S. small-capitalization stocks outperformed their large- and mid-cap counterparts, while value stocks outpaced growth. Among sectors, only health care failed to post gains. Notable contributions came from financial and technology stocks, while energy stocks, helped by rising prices, posted the highest total return.

### U.S. bond prices went up, then fell amid economic optimism

Demand for U.S. bonds dropped sharply and yields rose after the election as the markets anticipated faster growth and higher inflation. The bond market's fourth-quarter slump came as job creation remained solid, wages trended higher, and commodity prices recovered modestly. The Federal Reserve, also expecting the economy to continue performing well,

raised short-term interest rates in December for the first time in a year and only the second time in a decade.

The yield of the bellwether 10-year U.S. Treasury note, which tumbled over the first half of the year from 2.30% to 1.47%, ended December at 2.45%. The broad U.S. bond market returned 2.65%, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds outperformed Treasuries and mortgage-backed securities.

### For U.S. investors, a strong dollar muted international stock returns

Outside the United States, equity markets recorded modest gains despite unexpected political developments in 2016, most notably the United Kingdom's June vote to leave the European Union. Gains in non-U.S. stock markets were reduced for U.S. investors because many major currencies, especially the British

pound, weakened in relation to the U.S. dollar. The FTSE All-World ex US Index returned 4.80%.

Among non-U.S. sectors, energy and materials performed strongly as they benefited from rising commodity prices. As in the United States, health care stocks globally lost ground.

International bond markets generated positive returns for U.S.-based investors, particularly if the impact of weakening foreign currencies was hedged away. (Currency hedging can have the reverse effect of reducing returns when the dollar weakens.) Continued aggressive stimulus by central banks, including those in Europe and Japan, kept pressure on yields, boosting bond prices. The Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) returned 4.90%.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2016		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	12.05%	8.59%	14.69%
Russell 2000 Index (Small-caps)	21.31	6.74	14.46
Russell 3000 Index (Broad U.S. market)	12.74	8.43	14.67
FTSE All-World ex US Index (International)	4.80	-1.16	5.52
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	2.65%	3.03%	2.23%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	0.25	4.14	3.28
Citigroup Three-Month U.S. Treasury Bill Index	0.27	0.09	0.08
<b>CPI</b>			
Consumer Price Index	2.07%	1.18%	1.36%

# Vanguard® Small Company Growth Portfolio

## Advisors' Report

Vanguard Small Company Growth Portfolio returned 14.94% for the 12 months ended December 31, 2016, ahead of the 9.73% return of its benchmark, the Russell 2500 Growth Index, and the 9.85% average return of peer funds. Please note that the returns for Vanguard Variable Insurance Fund are different from those of Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

Through the fiscal year, the portfolio was managed by three independent advisors, a strategy that enhances diversification by providing exposure to distinct yet complementary investment approaches. It is not uncommon for different advisors to have different views about individual securities or the broader investment environment.

The advisors, the amount and percentage of the portfolio's assets each manages, and brief descriptions of their investment strategies are presented in the table on the next page. Each advisor has also prepared a discussion of the investment environment that existed during the year and its effect on the portfolio's positioning. (The Granahan discussion refers to

industry sectors as defined by Russell classifications, rather than by the Global Industry Classification Standard used elsewhere in this report.) These comments were prepared on January 19, 2017.

Please note that, as previously announced, Arrowpoint Partners was added as the third advisor to the portfolio effective January 25, 2016. Each advisor manages approximately one-third of the portfolio's assets.

### Granahan Investment Management, Inc.

#### Portfolio Managers:

Gary C. Hatton, CFA,  
Co-Founder and Chief Investment Officer

Jane M. White,  
Co-Founder, President, and  
Chief Executive Officer

Jennifer M. Pawloski  
Vice President

The market ended 2016 posting the best performance since 2013, overcoming a tumultuous start to the year. Small-capitalization stocks were down as much

as 13% through February, but by year-end, major indexes were at record highs. Early fears over a recession and slowing growth in China gave way to the reality of stronger economic conditions around the world. After the U.S. presidential election in November, markets rallied further as investors sensed a shift to a more business-friendly environment.

Strength in the portfolio came largely from health care and technology holdings. In health care, our overweight allocation to medical equipment and services, coupled with an underweighting of pharmaceuticals and biotechnology, drove the outperformance. A buyout of LDR Holdings (maker of spinal fusion alternative products) also boosted results.

In technology, the portfolio saw ten buyouts, and we had large weightings in top-performing Gigamon and Brooks Automation. Solid stock selection led consumer staples, energy, and utilities to positive attribution. Our overweighting of the strong producer durables sector offset our slight underperformance. Financial services was neutral.

Consumer discretionary and materials were negatives for the year. In consumer discretionary, leisure industry stocks dampened performance; in particular, Kona Grill and ClubCorp were down because of bad weather in Texas. Our underweighting of materials more than offset the sector's outperformance.

The economy has proved resilient in the face of multiple geopolitical surprises over the last few years. Although uncertainty surrounds the Trump administration's tax-cut, deregulation, and infrastructure plans, only time will tell. The United States is experiencing a tightening labor market and increasing hourly earnings, which

### Total Returns

	Year Ended December 31, 2016	Ten Years Ended December 31, 2016 Average Annual Return
Small Company Growth Portfolio	14.94%	8.54%
Russell 2500 Growth Index	9.73	8.24
Variable Insurance Small-Cap Growth Funds Average <sup>1</sup>	9.85	6.96

The figures shown represent past performance, which is not a guarantee of future results. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost.

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Portfolio <sup>2</sup>	Variable Insurance Small-Cap Growth Funds Average <sup>3</sup>
Small Company Growth Portfolio	0.38%	1.03%

<sup>1</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>2</sup> The portfolio expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the Small Company Growth Portfolio's expense ratio was 0.36%.

<sup>3</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2015.



propel prices and inflation. Signs of inflation, along with Trump's ideological changes, are contributing to a sea change in financial markets.

After the weak start to 2016, the surprise was that gross domestic product (GDP) expanded in the third quarter at a seasonally adjusted rate of 3.5%—the strongest growth rate in two years. The revenue and earnings growth of our portfolio companies was, and remains, strong and resilient. Surprisingly, valuation is up less than earnings growth.

Given that small businesses account for 40% of U.S. private-sector payrolls and nearly half of all nongovernment employees, the new tax and regulatory environment that looks to benefit these companies would also benefit those in our investable universe that provide productivity solutions to small businesses.

At the same time, continued growth, along with low unemployment and signs of firming inflation, is likely to reinforce the

Federal Reserve's plan to gradually raise interest rates. The portfolio retains a balance of emerging innovators that assist small businesses, and companies with unrecognized growth potential; both are integral to long-term performance.

### Vanguard Quantitative Equity Group

Portfolio Managers:

James P. Stetler, Principal

Michael R. Roach, CFA

Binbin Guo, Principal, Head of Equity Research and Portfolio Strategies

The period began with steep declines in commodity prices and unanticipated sluggish economic growth around the world, especially in China. These conditions triggered a move toward less risky assets. Against that backdrop, the Federal Reserve seemed less inclined to raise interest rates as it became unclear whether inflation and unemployment targets would be realized.

The United Kingdom's June vote to leave the European Union further clouded the Fed's outlook.

However, U.S. growth shot up in the third quarter, reversing disappointing results from earlier in the year. Strong economic and jobs figures led the dollar to strengthen against some international currencies and played a part in the Fed's December decision to raise the federal funds rate by 0.25 percentage point, to 0.5%–0.75%. Those factors and optimism about the potential for the new administration's policy initiatives fueled a stock market rally that continued into early 2017.

The benchmark Russell 2500 Growth Index ended the year up 9.73%, with ten of 11 sectors generating positive returns.

Although it's important to understand how our overall performance is affected by the macroeconomic factors we've described, our approach to investing focuses on specific fundamentals—not on technical analysis of stock price movements. We compare all stocks in our investment universe within the same industry groups in order to identify those with characteristics that we believe will outperform over the long run.

To do this, we use a strict quantitative process that systematically focuses on several key fundamental factors. We believe that attractive stocks exhibit five primary themes: 1) high quality—healthy balance sheets and consistent cash-flow generation, 2) effective use of capital—sound investment policies that favor internal over external funding, 3) consistent earnings growth—a demonstrated ability to grow earnings year after year, 4) strong market sentiment—market confirmation of our view, and 5) reasonable valuation—avoidance of overpriced stocks.

Using these five themes, we generate a composite rank for all the stocks in our universe each day, seeking to capitalize on investor biases across the market. We then monitor our portfolio, based on those rankings, and adjust when appropriate to maximize expected return while minimizing

### Vanguard Small Company Growth Portfolio Investment Advisors

Investment Advisor	Portfolio Assets Managed		Investment Strategy
	%	\$ Million	
Granahan Investment Management, Inc.	32	453	Bases its investment process on the beliefs that earnings drive stock prices and that small, dynamic companies with exceptional growth prospects have the greatest long-term potential. A bottom-up, fundamental approach places companies in one of three life-cycle categories: core growth, pioneer, and special situation. In each, the process looks for companies with strong earnings growth and leadership in their markets.
Vanguard Quantitative Equity Group	32	443	Employs a quantitative approach that focuses on fundamental factors, using models that assess valuation, growth prospects, management decisions, market sentiment, and earnings and balance-sheet quality of companies as compared with their peers.
Arrowpoint Partners	32	443	The firm uses in-depth fundamental research to uncover companies that, in its opinion, can control their own economic destiny. It starts by identifying businesses with strong competitive advantages in industries with high barriers to entry, then narrows the focus to companies with large potential markets and high-quality business models focused on the future. Finally, considerations are made for potential downside risk, resulting in a diversified portfolio of between 75 and 100 stocks.
Cash Investments	4	58	These short-term reserves are invested by Vanguard in equity index products to simulate investment in stocks. Each advisor may also maintain a modest cash position.

exposure to risks that our research indicates do not improve returns (such as industry selection and other risks relative to our benchmark).

For the fiscal year, our quality and yields models produced positive relative performance, while our momentum model detracted. Results exceeded those of the benchmark in seven sectors and were strongest in health care, information technology, and materials. Our energy, telecommunication services, and consumer staples holdings lagged the most.

In information technology, Advanced Micro Devices and Wix.com were the largest relative contributors. Trinseo SA and Koppers Holdings were strong contributors in materials, as was Array BioPharma in health care. Disappointments in health care included Infinity Pharmaceuticals and ImmunoGen. CVR Energy, Windstream Holdings in telecommunication services, and SUPERVALU in consumer staples also fell short on a relative basis.

### Arrowpoint Partners

Portfolio Managers:

Chad Meade, Partner

Brian Schaub, CFA, Partner

The last 12 months were a powerful lesson in the virtues and rewards of disciplined investing. The year began on a volatile note, with stocks declining precipitously during the first six weeks of the quarter. The Russell 2500 Growth Index declined by double digits over that span before rallying over the rest of the first quarter. We welcomed this volatility,

as it allowed us to reposition the portfolio and add holdings that we believed were set to outperform once the market rebounded.

The rest of 2016 was characterized by little volatility other than a few modest bouts around key macroeconomic events, most notably the United Kingdom's Brexit vote and the U.S. presidential election.

Our risk-first investment approach was rewarded by a transition in market leadership from high-momentum to low-momentum stocks. By factor, the strategy's underweight bias to momentum was the largest contributor for the year. Many of 2015's high fliers saw their share prices fall back to earth in 2016, especially in health care, where we were underweighted most of the year.

Another boost to performance was the resurgence of smaller-capitalization stocks, as the Russell 2000 Growth Index outpaced the Russell 1000 Growth Index for the year by more than 4 percentage points. We continue to find compelling investment opportunities in smaller-cap companies, and that led the strategy's weighted average market cap to fall below that of the benchmark.

Entering 2016, small-cap growth stocks had underperformed their large-cap counterparts over one, three, five, and ten years. Small-cap growth had also underperformed large-cap growth in seven of the prior ten years. Although a single year of outperformance does not make a trend, we remain enthusiastic about the outlook for small-cap growth companies.

Our strongest-performing sector was industrials, with a favorable contribution from MSC Industrial Direct. The sector was lifted by stabilizing oil prices, improving sentiment following the presidential election, and increasing valuations. Information technology was also strong, led by Demandware, which was acquired by Salesforce.com. LDR Holding, a medical device company, was acquired by Zimmer Biomet at a 64% premium as Zimmer looked to increase its exposure to the global spinal market.

Materials, which we underweighted, was the largest drag on overall performance. Companies in this sector tend to have weak competitive advantages and high correlations to volatile and difficult-to-predict commodity prices. At the stock level, health care companies Diplomat Pharmacy, Alnylam Pharmaceuticals, and Endologix all detracted from overall performance.

## Portfolio Profile

As of December 31, 2016

### Portfolio Characteristics

	Portfolio	Comparative Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Stocks	540	1,469	3,833
Median Market Cap	\$2.2B	\$3.9B	\$54.2B
Price/Earnings Ratio	42.6x	33.0x	24.4x
Price/Book Ratio	4.0x	4.5x	2.8x
Yield <sup>3</sup>	0.2%	0.8%	2.0%
Return on Equity	13.4%	15.6%	16.5%
Earnings Growth Rate	11.2%	12.9%	8.2%
Foreign Holdings	2.3%	0.0%	0.0%
Turnover Rate	91%	—	—
Expense Ratio <sup>4</sup>	0.38%	—	—
Short-Term Reserves	1.7%	—	—

### Volatility Measures

	Portfolio Versus Comparative Index <sup>1</sup>	Portfolio Versus Broad Index <sup>2</sup>
R-Squared	0.96	0.78
Beta	1.04	1.26

### Sector Diversification (% of equity exposure)

	Portfolio	Comparative Index <sup>1</sup>	Broad Index <sup>2</sup>
Consumer Discretionary	15.3%	17.1%	12.5%
Consumer Staples	1.5	4.3	8.3
Energy	1.9	1.2	7.0
Financials	8.7	6.3	15.4
Health Care	20.5	18.2	13.0
Industrials	19.7	19.0	10.8
Information Technology	25.8	20.9	20.0
Materials	2.6	6.7	3.3
Real Estate	2.8	5.2	4.1
Telecommunication Services	0.9	0.7	2.4
Utilities	0.3	0.4	3.2

### Ten Largest Holdings<sup>5</sup> (% of total net assets)

Cadence Design Systems Inc.	Application Software	1.2%
ABIOMED Inc.	Health Care Equipment	1.1
ServiceMaster Global Holdings Inc.	Specialized Consumer Services	0.9
INC Research Holdings Inc. Class A	Life Sciences Tools & Services	0.9
Sally Beauty Holdings Inc.	Specialty Stores	0.9
TriNet Group Inc.	Human Resource & Employment Services	0.9
Tennant Co.	Industrial Machinery	0.8
Clean Harbors Inc.	Environmental & Facilities Services	0.8
LPL Financial Holdings Inc.	Investment Banking & Brokerage	0.8
CEB Inc.	Research & Consulting Services	0.8
Top Ten		9.1%

### Investment Focus

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Beta.** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

**Equity Exposure.** A measure that reflects a portfolio's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

**R-Squared.** A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

<sup>1</sup> Russell 2500 Growth Index.

<sup>2</sup> Dow Jones U.S. Total Stock Market Float Adjusted Index.

<sup>3</sup> 30-day SEC yield for the portfolio; annualized dividend yield for the indexes.

<sup>4</sup> The expense ratio shown is from the prospectus dated April 29, 2016, and represents estimated costs for the current fiscal year. For the fiscal year ended December 31, 2016, the Small Company Growth Portfolio's expense ratio was 0.36%.

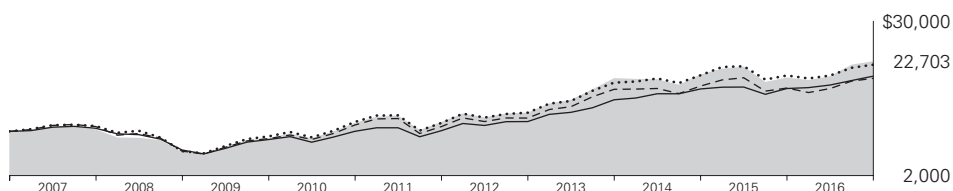
<sup>5</sup> The holdings listed exclude any temporary cash investments and equity index products.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

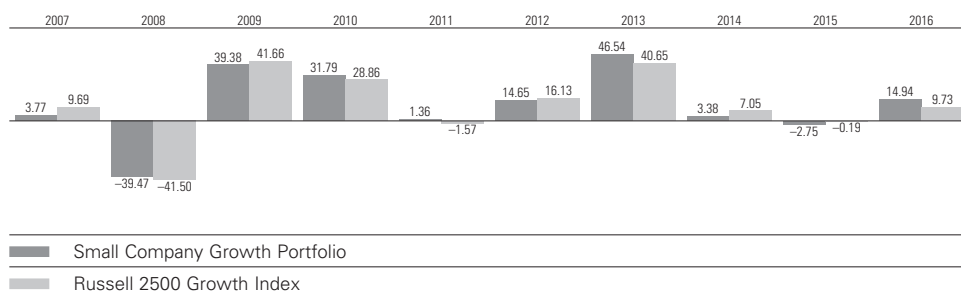
### Cumulative Performance: December 31, 2006–December 31, 2016

Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2016			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Small Company Growth Portfolio	14.94%	14.19%	8.54%	\$22,703
Russell 2500 Growth Index	9.73	13.88	8.24	22,078
Variable Insurance Small-Cap Growth Funds Average <sup>1</sup>	9.85	12.54	6.96	19,607
Dow Jones U.S. Total Stock Market Float Adjusted Index	12.62	14.59	7.18	20,003

### Fiscal-Year Total Returns (%): December 31, 2006–December 31, 2016



<sup>1</sup> Derived from data provided by Lipper, a Thomson Reuters Company.  
See Financial Highlights for dividend and capital gains information.

## Financial Statements

### Statement of Net Assets

As of December 31, 2016

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (95.1%)<sup>1</sup></b>								
<b>Consumer Discretionary (14.5%)</b>								
* ServiceMaster Global Holdings Inc.	344,263	12,968	Interpublic Group of Cos. Inc.	51,444	1,204	* US Foods Holding Corp.	46,000	1,264
* Sally Beauty Holdings Inc.	475,194	12,555	* Kona Grill Inc.	89,290	1,121	* Omega Protein Corp.	36,200	907
* Grand Canyon Education Inc.	152,914	8,938	Ruth's Hospitality Group Inc.	60,661	1,110	HRG Group Inc.	47,800	744
National CineMedia Inc.	601,094	8,854	Domino's Pizza Inc.	6,800	1,083	* SUPERVALU Inc.	155,500	726
Carter's Inc.	101,255	8,747	* American Axle & Manufacturing Holdings Inc.	52,196	1,007	* Performance Food Group Co.	25,016	600
* Hibbett Sports Inc.	223,336	8,330	* iRobot Corp.	16,500	964	Medifast Inc.	12,900	537
Wolverine World Wide Inc.	359,707	7,896	* Genesco Inc.	15,000	931	Calavo Growers Inc.	7,500	461
Dunkin' Brands Group Inc.	128,773	6,753	* MCBC Holdings Inc.	63,469	925	* Freshpet Inc.	44,060	447
* IMAX Corp.	185,603	5,828	* Bright Horizons Family Solutions Inc.	12,980	909	John B Sanfilippo & Son Inc.	5,800	408
<sup>^</sup> Polaris Industries Inc.	67,307	5,545	Culp Inc.	23,700	880	* Herbalife Ltd.	8,338	401
* Five Below Inc.	129,865	5,189	* Denny's Corp.	68,000	872	<sup>^</sup> Natural Health Trends Corp.	11,100	276
DSW Inc. Class A	224,013	5,074	Camping World Holdings Inc. Class A	24,747	806	* Avon Products Inc.	30,800	155
* Modine Manufacturing Co.	321,922	4,797	* Dave & Buster's Entertainment Inc.	11,700	659	PriceSmart Inc.	1,800	150
Dick's Sporting Goods Inc.	85,281	4,528	Cato Corp. Class A	21,400	644	<b>19,334</b>		
Lear Corp.	31,107	4,118	* Buffalo Wild Wings Inc.	4,000	618	<b>Energy (1.7%)</b>		
* Boyd Gaming Corp.	160,076	3,229	New Media Investment Group Inc.	37,932	607	* Resolute Energy Corp.	121,500	5,005
* Burlington Stores Inc.	35,373	2,998	* Potbelly Corp.	46,043	594	* RigNet Inc.	195,391	4,523
Tupperware Brands Corp.	53,908	2,837	* Tempur Sealy International Inc.	8,489	580	* Diamondback Energy Inc.	35,300	3,567
Vail Resorts Inc.	17,200	2,775	* Tile Shop Holdings Inc.	29,534	577	Core Laboratories NV	28,300	3,397
<sup>^</sup> Nexstar Broadcasting Group Inc. Class A	43,600	2,760	Capella Education Co.	6,500	571	* Newfield Exploration Co.	64,409	2,609
Cheesecake Factory Inc.	46,026	2,756	Ethan Allen Interiors Inc.	14,788	545	* Dril-Quip Inc.	34,926	2,097
Brinker International Inc.	55,640	2,756	* Francesca's Holdings Corp.	30,090	543	* Southwestern Energy Co.	125,706	1,360
Monro Muffler Brake Inc.	47,834	2,736	Libbey Inc.	24,740	481	* Carrizo Oil & Gas Inc.	15,338	573
Children's Place Inc.	26,730	2,698	Chico's FAS Inc.	31,200	449	<sup>*,^</sup> Enservco Corp.	784,600	439
Big Lots Inc.	53,400	2,681	Bassett Furniture Industries Inc.	14,400	438	* Sanchez Energy Corp.	35,740	323
Bloomin' Brands Inc.	146,483	2,641	La-Z-Boy Inc.	13,300	413	<b>23,893</b>		
Lithia Motors Inc. Class A	26,700	2,585	Red Rock Resorts Inc. Class A	16,600	385	<b>Financials (7.8%)</b>		
<sup>*,^</sup> SodaStream International Ltd.	65,060	2,568	* Penn National Gaming Inc.	23,100	319	LPL Financial Holdings Inc.	299,668	10,551
Bob Evans Farms Inc.	44,883	2,388	* tronc Inc.	17,000	236	<sup>*,^</sup> LendingTree Inc.	92,780	9,403
ClubCorp Holdings Inc.	164,700	2,363	* Taylor Morrison Home Corp. Class A	10,500	202	Financial Engines Inc.	197,424	7,255
* Smith & Wesson Holding Corp.	111,903	2,359	Cinemark Holdings Inc.	5,100	196	* Customers Bancorp Inc.	180,900	6,480
Regal Entertainment Group Class A	112,726	2,322	* JAKKS Pacific Inc.	25,676	132	* Texas Capital Bancshares Inc.	65,500	5,135
Papa John's International Inc.	26,794	2,293	* Stoneridge Inc.	6,600	117	Bats Global Markets Inc.	147,981	4,959
AMC Entertainment Holdings Inc.	66,577	2,240	* Drew Industries Inc.	900	97	WisdomTree Investments Inc.	443,393	4,939
* Strayer Education Inc.	26,463	2,134	* Scientific Games Corp. Class A	6,300	88	Bank of the Ozarks Inc.	91,645	4,820
American Eagle Outfitters Inc.	135,051	2,049	* Vera Bradley Inc.	7,300	86	* Safeguard Scientifics Inc.	303,173	4,078
Leggett & Platt Inc.	37,733	1,844	* Urban Outfitters Inc.	2,970	85	James River Group Holdings Ltd.	95,280	3,959
Sturm Ruger & Co. Inc.	34,383	1,812	<b>202,841</b>			MarketAxess Holdings Inc.	26,800	3,937
* Cooper-Standard Holdings Inc.	16,790	1,736	<b>Consumer Staples (1.4%)</b>			MSCI Inc. Class A	49,253	3,880
Tailored Brands Inc.	65,400	1,671	* Post Holdings Inc.	35,466	2,851	* Affiliated Managers Group Inc.	23,000	3,342
* MSG Networks Inc.	76,552	1,646	Fresh Del Monte Produce Inc.	37,255	2,259	FactSet Research Systems Inc.	20,400	3,334
DR Horton Inc.	58,343	1,595	Ingredion Inc.	16,169	2,021	* Essent Group Ltd.	91,310	2,956
Callaway Golf Co.	138,571	1,519	Dean Foods Co.	92,459	2,014	* PRA Group Inc.	70,665	2,763
Finish Line Inc. Class A	79,000	1,486	Ingles Markets Inc. Class A	38,400	1,847	* Pacific Premier Bancorp Inc.	73,900	2,612
* ZAGG Inc.	178,500	1,267	Nu Skin Enterprises Inc. Class A	26,500	1,266	* Walker & Dunlop Inc.	77,700	2,424
* Hyatt Hotels Corp. Class A	22,700	1,254				Universal Insurance Holdings Inc.	80,754	2,293
* Tenneco Inc.	20,000	1,249				* INTL. FCStone Inc.	57,400	2,273
						Primerica Inc.	30,435	2,105
						* World Acceptance Corp.	30,230	1,943
						BGC Partners Inc. Class A	183,800	1,880
						National Bank Holdings Corp. Class A	51,100	1,630
						Opus Bank	49,769	1,496
						* FCB Financial Holdings Inc. Class A	29,600	1,412
						Banc of California Inc.	69,249	1,202
						<sup>*,^</sup> Trupanion Inc.	77,400	1,201
						Meta Financial Group Inc.	10,300	1,060
						OM Asset Management plc	70,100	1,016
						Kinsale Capital Group Inc.	25,600	871
						* Credit Acceptance Corp.	3,074	669
						* Regional Management Corp.	23,500	618
						Capital Bank Financial Corp.	14,700	577



## Vanguard Small Company Growth Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
* Harris & Harris Group Inc.	98,790	136	* Five Prime Therapeutics Inc.	41,149	2,062	* Clean Harbors Inc.	200,142	11,138
* Donnelley Financial Solutions Inc.	5,701	131	* Emergent BioSolutions Inc.	61,471	2,019	CEB Inc.	173,456	10,511
* Nationstar Mortgage Holdings Inc.	5,200	94	* Pacira Pharmaceuticals Inc.	57,900	1,870	*^ Sensata Technologies Holding NV	264,290	10,294
		109,434	* Paratek Pharmaceuticals Inc.	116,870	1,800	HEICO Corp. Class A	133,062	9,035
<b>Health Care (19.6%)</b>			* Array BioPharma Inc.	204,200	1,795	* Hawaiian Holdings Inc.	134,263	7,653
* ABIOMED Inc.	138,180	15,570	* Cutera Inc.	103,180	1,790	Forward Air Corp.	159,098	7,538
* INC Research Holdings Inc. Class A	241,363	12,696	* Atara Biotherapeutics Inc.	124,375	1,766	* Proto Labs Inc.	139,588	7,168
* Exact Sciences Corp.	643,396	8,596	* Enanta Pharmaceuticals Inc.	51,780	1,735	* Wabtec Corp.	82,739	6,869
* DexCom Inc.	120,771	7,210	* Chemed Corp.	10,167	1,631	* Kirby Corp.	99,967	6,648
* Spectranetics Corp.	290,248	7,111	* FibroGen Inc.	74,246	1,589	* Heartland Express Inc.	315,148	6,416
* STERIS plc	103,807	6,996	* Anika Therapeutics Inc.	31,652	1,550	* Kennametal Inc.	195,994	6,127
* Inogen Inc.	102,805	6,905	* Juno Therapeutics Inc.	80,625	1,520	* Genesee & Wyoming Inc. Class A	73,743	5,118
*^ Zeltiq Aesthetics Inc.	158,054	6,878	* Spectrum Pharmaceuticals Inc.	301,140	1,334	Albany International Corp.	108,232	5,011
* Evolent Health Inc. Class A	456,060	6,750	* Owens & Minor Inc.	29,200	1,030	MSC Industrial Direct Co. Inc. Class A	53,891	4,979
* Align Technology Inc.	63,851	6,138	* BioCryst Pharmaceuticals Inc.	140,413	889	* Douglas Dynamics Inc.	130,994	4,408
* Cooper Cos. Inc.	34,564	6,046	* ICU Medical Inc.	5,982	881	* Kaman Corp.	88,720	4,341
* Prestige Brands Holdings Inc.	107,228	5,587	* HMS Holdings Corp.	48,050	873	* RBC Bearings Inc.	45,180	4,193
* Catalent Inc.	192,365	5,186	* Exelixis Inc.	53,000	790	* Woodward Inc.	59,088	4,080
* Cynosure Inc. Class A	111,460	5,083	* Vascular Solutions Inc.	13,776	773	* United Rentals Inc.	38,596	4,075
* NeoGenomics Inc.	569,671	4,882	* Harvard Bioscience Inc.	247,440	755	* Huntington Ingalls Industries Inc.	22,081	4,067
* Alkermes plc	86,600	4,813	* Ensign Group Inc.	32,600	724	* Advisory Board Co.	108,148	3,596
* Hologic Inc.	119,879	4,810	* LeMaitre Vascular Inc.	27,958	708	* WageWorks Inc.	46,340	3,360
* MEDNAX Inc.	71,338	4,755	* Amphastar Pharmaceuticals Inc.	38,200	704	* Mobile Mini Inc.	109,120	3,301
* Ligand Pharmaceuticals Inc.	44,566	4,528	* Medpace Holdings Inc.	17,900	646	* Rush Enterprises Inc. Class A	101,460	3,237
* Patterson Cos. Inc.	109,210	4,481	* Vanda Pharmaceuticals Inc.	40,400	644	* Spirit AeroSystems Holdings Inc. Class A	55,115	3,216
* Quintiles IMS Holdings Inc.	55,433	4,216	* Orthofix International NV	17,025	616	* Apogee Enterprises Inc.	58,010	3,107
* Veeva Systems Inc. Class A	96,634	3,933	* Ophthotech Corp.	122,200	590	* MasTec Inc.	79,500	3,041
* Acadia Healthcare Co. Inc.	118,500	3,922	* Rigel Pharmaceuticals Inc.	243,981	581	* Titan Machinery Inc.	203,750	2,969
* West Pharmaceutical Services Inc.	46,010	3,903	* PAREXEL International Corp.	8,037	528	* Toro Co.	51,700	2,893
* athenahealth Inc.	36,179	3,805	* Teleflex Inc.	3,142	506	* Trex Co. Inc.	40,791	2,627
* Cardiovascular Systems Inc.	153,420	3,714	* Fulgent Genetics Inc.	43,100	499	* General Cable Corp.	135,301	2,577
* WellCare Health Plans Inc.	26,206	3,592	* Lexicon Pharmaceuticals Inc.	35,000	484	* Global Brass & Copper Holdings Inc.	75,023	2,573
*^ Revance Therapeutics Inc.	171,720	3,555	* Esperion Therapeutics Inc.	37,950	475	* Allegion plc	38,983	2,495
* IDEXX Laboratories Inc.	28,637	3,358	* Phibro Animal Health Corp. Class A	16,032	470	* Quad/Graphics Inc.	92,529	2,487
* Bio-Rad Laboratories Inc. Class A	17,944	3,271	* NxStage Medical Inc.	14,539	381	* Multi-Color Corp.	32,025	2,485
* Medidata Solutions Inc.	63,621	3,160	*^ AcetRx Pharmaceuticals Inc.	144,440	376	* Saia Inc.	55,005	2,428
* Charles River Laboratories International Inc.	39,400	3,002	* Tenet Healthcare Corp.	23,106	343	* Continental Building Products Inc.	105,050	2,427
* Masimo Corp.	43,759	2,949	* Vocera Communications Inc.	18,379	340	* Wabash National Corp.	150,756	2,385
*^ Endologix Inc.	502,058	2,872	* Infinity Pharmaceuticals Inc.	226,677	306	* Meritor Inc.	189,512	2,354
* Ironwood Pharmaceuticals Inc. Class A	185,200	2,832	* Natus Medical Inc.	8,717	303	* Brink's Co.	56,451	2,329
* Supernus Pharmaceuticals Inc.	112,000	2,828	* ImmunoGen Inc.	133,760	273	* BWX Technologies Inc.	54,951	2,182
* Insulet Corp.	73,731	2,778	* Integra LifeSciences Holdings Corp.	3,100	266	* Insperity Inc.	30,194	2,142
* Nektar Therapeutics Class A	221,925	2,723	* Aratana Therapeutics Inc.	27,400	197	* Ritchie Bros Auctioneers Inc. (New York Shares)	59,737	2,031
* Hill-Rom Holdings Inc.	48,100	2,700	* Applied Genetic Technologies Corp.	20,400	191	* Swift Transportation Co.	80,384	1,958
* Acceleron Pharma Inc.	99,750	2,546	* Depomed Inc.	9,700	175	* NCI Building Systems Inc.	121,347	1,899
* Nevro Corp.	34,306	2,493	*^ Reata Pharmaceuticals Inc. Class A	5,800	127	* Ply Gem Holdings Inc.	116,560	1,894
* PRA Health Sciences Inc.	44,866	2,473	* Corcept Therapeutics Inc.	16,500	120	* Greenbrier Cos. Inc.	44,717	1,858
* DBV Technologies SA ADR	70,370	2,472	* SciClone Pharmaceuticals Inc.	10,600	114	* TASER International Inc.	75,383	1,827
* Alnylam Pharmaceuticals Inc.	63,401	2,374	* Akorn Inc.	5,100	111	* Kforce Inc.	71,739	1,657
* Neurocrine Biosciences Inc.	60,401	2,338	*^ Roadrunner Transportation Systems Inc.	144,350	1,500	* Insteel Industries Inc.	45,368	1,617
* Bluebird Bio Inc.	37,734	2,328	* Associates Holdings Inc.	4,500	96	* AO Smith Corp.	33,254	1,575
*^ Novadaq Technologies Inc.	327,424	2,321	* Coherus Biosciences Inc.	3,200	90	* Curtiss-Wright Corp.	15,800	1,554
* United Therapeutics Corp.	16,095	2,308	* Aptevio Therapeutics Inc.	35,185	86	* Roadrunner Transportation Systems Inc.	144,350	1,500
* Bruker Corp.	108,254	2,293	* Genomic Health Inc.	2,900	85	* Herman Miller Inc.	43,675	1,494
* CONMED Corp.	50,540	2,232	* CTI BioPharma Corp.	169,466	68	* Brady Corp. Class A	38,108	1,431
* Mettler-Toledo International Inc.	5,291	2,215			273,657	* Kornit Digital Ltd.	110,600	1,399
* OraSure Technologies Inc.	251,425	2,207	<b>Industrials (18.8%)</b>			* Gibraltar Industries Inc.	33,561	1,398
* Quidel Corp.	100,111	2,144	* TriNet Group Inc.	486,129	12,455	* Argan Inc.	19,300	1,362
* BioTelemetry Inc.	94,154	2,104	* Tennant Co.	161,785	11,519	*^ Energy Recovery Inc.	124,883	1,293

## Vanguard Small Company Growth Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
John Bean Technologies Corp.	14,850	1,276	* Aerohive Networks Inc.	686,385	3,912	* Shopify Inc. Class A	25,980	1,114
* Echo Global Logistics Inc.	49,700	1,245	* Qualys Inc.	122,400	3,874	* Carbonite Inc.	67,000	1,099
* Hudson Technologies Inc.	151,667	1,215	* Proofpoint Inc.	54,786	3,871	* Ciena Corp.	44,341	1,082
* Spirit Airlines Inc.	19,200	1,111	* Perficient Inc.	212,900	3,724	* EPAM Systems Inc.	16,819	1,082
^ American Railcar Industries Inc.	21,902	992	* Inphi Corp.	82,545	3,683	*^ Digimarc Corp.	33,535	1,006
Knoll Inc.	34,977	977	* Synchronoss Technologies Inc.	95,600	3,661	* Paycom Software Inc.	21,630	984
* American Woodmark Corp.	12,818	965	* Virtusa Corp.	144,990	3,642	* Lumentum Holdings Inc.	24,146	933
West Corp.	37,081	918	* NCR Corp.	86,579	3,512	* Box Inc.	50,900	705
* YRC Worldwide Inc.	65,293	867	* Aspen Technology Inc.	61,841	3,381	* Avid Technology Inc.	156,948	691
Lennox International Inc.	4,700	720	* OSI Systems Inc.	43,250	3,292	* Jive Software Inc.	156,285	680
Donaldson Co. Inc.	16,400	690	* New Relic Inc.	116,340	3,287	* Aptio Inc. Class A	35,620	660
* Avis Budget Group Inc.	18,000	660	Science Applications International Corp.	38,037	3,226	* PFSSweb Inc.	73,268	623
Barrett Business Services Inc.	8,700	558	Booz Allen Hamilton Holding Corp. Class A	89,042	3,212	* Bazaarvoice Inc.	127,769	620
EnerSys	6,900	539	* Finisar Corp.	106,100	3,212	* Amber Road Inc.	67,110	609
Dun & Bradstreet Corp.	4,256	516	* Cardtronics plc Class A	54,976	3,000	* MINDBODY Inc. Class A	28,434	606
Kimball International Inc. Class B	28,600	502	* Teradata Corp.	110,282	2,996	*^ Nutanix Inc.	22,800	606
Landstar System Inc.	5,700	486	* Cirrus Logic Inc.	52,565	2,972	* Square Inc.	42,835	584
* Atkore International Group Inc.	19,800	473	* Advanced Micro Devices Inc.	261,437	2,965	* Angie's List Inc.	68,539	564
* Wesco Aircraft Holdings Inc.	31,200	466	* ShoreTel Inc.	401,684	2,872	* NETGEAR Inc.	9,513	517
Comfort Systems USA Inc.	13,522	450	* PROS Holdings Inc.	132,300	2,847	* CommScope Holding Co. Inc.	13,500	502
* HD Supply Holdings Inc.	10,520	447	CSG Systems International Inc.	56,911	2,755	Monotype Imaging Holdings Inc.	25,040	497
Applied Industrial Technologies Inc.	6,700	398	* Callidus Software Inc.	163,200	2,742	* Infinera Corp.	57,300	486
InnerWorkings Inc.	39,800	392	* Manhattan Associates Inc.	51,630	2,738	* Xcerra Corp.	63,500	485
Supreme Industries Inc. Class A	24,767	389	* Silicon Laboratories Inc.	42,000	2,730	* HubSpot Inc.	10,200	479
Astec Industries Inc.	5,300	358	*^ Impinj Inc.	76,660	2,709	* Synopsys Inc.	7,800	459
* TriMas Corp.	13,366	314	*^ Stratasys Ltd.	162,590	2,689	* RingCentral Inc. Class A	21,215	437
Watts Water Technologies Inc. Class A	4,700	306	* WNS Holdings Ltd. ADR	96,329	2,654	* Zendesk Inc.	19,500	413
* Huron Consulting Group Inc.	5,900	299	* Itron Inc.	41,330	2,598	* Trivago NV ADR	34,260	403
Kadant Inc.	4,580	280	* Extreme Networks Inc.	513,611	2,583	* ePlus Inc.	3,417	394
Advanced Drainage Systems Inc.	10,800	222	* Shutterstock Inc.	53,886	2,561	* WebMD Health Corp.	7,852	389
* Sparton Corp.	5,200	124	Travelport Worldwide Ltd.	181,102	2,554	* Advanced Energy Industries Inc.	6,479	355
* Orion Group Holdings Inc.	9,200	92	* Microsemi Corp.	47,100	2,542	* Brightcove Inc.	39,600	319
		262,186	* Guidewire Software Inc.	50,156	2,474	* Ellie Mae Inc.	3,750	314
<b>Information Technology (24.6%)</b>			* BroadSoft Inc.	59,000	2,434	* Ebix Inc.	5,310	303
* Cadence Design Systems Inc.	657,548	16,583	* Hackett Group Inc.	135,491	2,393	* Liquidity Services Inc.	29,490	288
CDW Corp.	200,260	10,432	* GTT Communications Inc.	82,906	2,384	* Plexus Corp.	4,837	261
* 2U Inc.	329,434	9,932	CSRA Inc.	72,844	2,319	* NeoPhotonics Corp.	24,079	260
* Euronet Worldwide Inc.	132,429	9,592	* Barracuda Networks Inc.	107,314	2,300	* Radisys Corp.	52,098	231
Brooks Automation Inc.	554,653	9,468	* IPG Photonics Corp.	23,100	2,280	* NIC Inc.	9,200	220
* Gartner Inc.	80,731	8,159	* GoDaddy Inc. Class A	64,260	2,246	* Exa Corp.	13,800	212
SS&C Technologies Holdings Inc.	238,614	6,824	* A10 Networks Inc.	269,225	2,237	* Take-Two Interactive Software Inc.	3,900	192
* Trimble Inc.	220,881	6,660	* Unisys Corp.	144,927	2,167	* EnerNOC Inc.	31,000	186
* CoStar Group Inc.	34,620	6,526	Power Integrations Inc.	31,750	2,154	* DHI Group Inc.	27,769	174
* SPS Commerce Inc.	91,803	6,416	* Radware Ltd.	147,700	2,153	* Varonis Systems Inc.	6,000	161
* Gigamon Inc.	135,819	6,187	TeleTech Holdings Inc.	70,264	2,143	* Workiva Inc.	10,900	149
MAXIMUS Inc.	108,111	6,032	Monolithic Power Systems Inc.	26,000	2,130	* Sonus Networks Inc.	22,645	143
* RealPage Inc.	192,638	5,779	* PTC Inc.	44,957	2,080	* Acacia Communications Inc.	2,250	139
* InvenSense Inc.	443,300	5,670	* Avnet Inc.	43,101	2,052	* Xactly Corp.	11,200	123
* Ultimate Software Group Inc.	26,542	4,840	* Rapid7 Inc.	167,500	2,038	* InterDigital Inc.	1,100	100
* CEVA Inc.	136,900	4,593	* Stamps.com Inc.	17,600	2,018	* Lattice Semiconductor Corp.	12,900	95
* Super Micro Computer Inc.	162,319	4,553	* MaxLinear Inc.	89,214	1,945	* Rosetta Stone Inc.	4,500	40
Teradyne Inc.	177,031	4,497	* Imperva Inc.	46,700	1,793			343,671
* ChannelAdvisor Corp.	302,328	4,338	* Sykes Enterprises Inc.	61,898	1,786	<b>Materials (2.4%)</b>		
* Wix.com Ltd.	96,369	4,293	*^ Twilio Inc. Class A	60,700	1,751	* Quaker Chemical Corp.	31,401	4,018
* Mellanox Technologies Ltd.	99,715	4,078	EarthLink Holdings Corp.	303,929	1,714	* Crown Holdings Inc.	61,527	3,235
* Descartes Systems Group Inc.	189,925	4,064	* Tyler Technologies Inc.	12,000	1,713	* Owens-Illinois Inc.	163,300	2,843
* Cimpress NV	44,025	4,033	* Red Hat Inc.	24,576	1,713	Chemours Co.	126,003	2,783
* Rudolph Technologies Inc.	167,700	3,916	* CyberArk Software Ltd.	35,700	1,624	* Trinseo SA	45,872	2,720
			* Pandora Media Inc.	110,450	1,440	* Koppers Holdings Inc.	63,013	2,539
			* Eastman Kodak Co.	91,893	1,424	Rayonier Advanced Materials Inc.	157,909	2,441
			* LivePerson Inc.	183,930	1,389	Steel Dynamics Inc.	66,828	2,378
			* Five9 Inc.	92,633	1,314	Huntsman Corp.	95,871	1,829
			* Nimble Storage Inc.	160,000	1,267	Worthington Industries Inc.	37,519	1,780
			* Synaptics Inc.	23,156	1,241	* Coeur Mining Inc.	158,790	1,443
			* Amkor Technology Inc.	106,200	1,120	Sealed Air Corp.	27,900	1,265
						Avery Dennison Corp.	13,691	961

## Vanguard Small Company Growth Portfolio

	Shares	Market Value* (\$000)		Shares	Amount (\$000)		Amount (\$000)
American Vanguard Corp.	40,500	776	* Boingo Wireless Inc.	24,600	300	<b>Statement of Assets and Liabilities</b>	
<sup>^</sup> Valvoline Inc.	33,500	720	IDT Corp. Class B	7,900	146		
* GCP Applied Technologies Inc.	23,682	634			<b>11,970</b>	<b>Assets</b>	
* Louisiana-Pacific Corp.	26,178	496	<b>Utilities (0.1%)</b>			Investments in Securities, at Value	
Innophos Holdings Inc.	6,500	340	Southwest Gas Corp.	18,876	1,446	Unaffiliated Issuers	1,318,013
* Ryerson Holding Corp.	22,190	296	Spark Energy Inc. Class A	10,020	304	Affiliated Vanguard Funds	103,141
			Middlesex Water Co.	2,426	104	Total Investments in Securities	1,421,154
		<b>33,497</b>			<b>1,854</b>	Investment in Vanguard	105
<b>Other (1.0%)</b>			<b>Total Common Stocks</b>			Receivables for Investment Securities Sold	2,224
<sup>^,2</sup> Vanguard Small-Cap Growth ETF	104,300	13,886	<b>(Cost \$1,192,788)</b>		<b>1,329,303</b>	Receivables for Accrued Income	623
* NuPathe Inc. CVR	345,900	—	<b>Temporary Cash Investments (6.6%)<sup>1</sup></b>			Receivables for Capital Shares Issued	678
* Prosensa Holding NV CVR Expire 2/15/17	189,490	—	<b>Money Market Fund (6.4%)</b>			Other Assets <sup>5</sup>	419
		<b>13,886</b>	<sup>3,4</sup> Vanguard Market Liquidity Fund, 0.823%	892,465	89,255	<b>Total Assets</b>	<b>1,425,203</b>
<b>Real Estate (2.4%)</b>						<b>Liabilities</b>	
QTS Realty Trust Inc. Class A	87,780	4,358		Face Amount (\$000)		Payables for Investment Securities Purchased	1,141
National Storage Affiliates Trust	192,830	4,256	<b>U.S. Government and Agency Obligations (0.2%)</b>			Collateral for Securities on Loan	20,973
Ryman Hospitality Properties Inc.	48,743	3,071	United States Treasury Bill, 0.314%, 1/5/17	100	100	Payables to Investment Advisor	440
Medical Properties Trust Inc.	205,500	2,528	<sup>5</sup> United States Treasury Bill, 0.322%, 1/19/17	500	500	Payables for Capital Shares Redeemed	3,095
DuPont Fabros Technology Inc.	55,454	2,436	United States Treasury Bill, 0.310%, 2/2/17	100	100	Payables to Vanguard	1,944
Omega Healthcare Investors Inc.	76,188	2,382	<sup>5</sup> United States Treasury Bill, 0.487%, 3/16/17	200	200	Other Liabilities	195
Washington Prime Group Inc.	227,310	2,366	<sup>5</sup> United States Treasury Bill, 0.591%, 5/4/17	100	100	<b>Total Liabilities</b>	<b>27,788</b>
Care Capital Properties Inc.	92,073	2,302	<sup>5</sup> United States Treasury Bill, 0.623%, 5/18/17	100	100	<b>Net Assets</b>	<b>1,397,415</b>
Sabra Health Care REIT Inc.	92,379	2,256	<sup>5</sup> United States Treasury Bill, 0.597%, 5/25/17	1,500	1,496		
Senior Housing Properties Trust	99,589	1,885			<b>2,596</b>		
STAG Industrial Inc.	78,370	1,871	<b>Total Temporary Cash Investments</b>				
Outfront Media Inc.	37,037	921	<b>(Cost \$91,853)</b>		<b>91,851</b>		
* Forestar Group Inc.	50,400	670	<b>Total Investments (101.7%)</b>				
Hersha Hospitality Trust Class A	30,500	656	<b>(Cost \$1,284,641)</b>		<b>1,421,154</b>		
Potlatch Corp.	14,400	600	<b>Other Assets and Liabilities (-1.7%)</b>				
Gaming and Leisure Properties Inc.	13,211	404	Other Assets <sup>5</sup>		4,049		
* MedEquities Realty Trust Inc.	10,600	118	Liabilities <sup>4</sup>		(27,788)		
		<b>33,080</b>			<b>(23,739)</b>		
<b>Telecommunication Services (0.8%)</b>			<b>Net Assets (100%)</b>				
* Vonage Holdings Corp.	742,800	5,088	<b>Applicable to 64,986,330 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)</b>		<b>1,397,415</b>		
Cogent Communications Holdings Inc.	101,162	4,183	<b>Net Asset Value Per Share</b>		<b>\$21.50</b>		
Cincinnati Bell Inc.	47,880	1,070					
<sup>^</sup> Windstream Holdings Inc.	90,064	660					
* Zayo Group Holdings Inc.	15,900	523					

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

<sup>^</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$20,068,000.

<sup>1</sup> The portfolio invests a portion of its cash reserves in equity markets through the use of index futures contracts. After giving effect to futures investments, the portfolio's effective common stock and temporary cash investment positions represent 98.5% and 3.2%, respectively, of net assets.

<sup>2</sup> Considered an affiliated company of the portfolio as the issuer is another member of The Vanguard Group.

<sup>3</sup> Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

<sup>4</sup> Includes \$20,973,000 of collateral received for securities on loan.

<sup>5</sup> Securities with a value of \$2,376,000 and cash of \$83,000 have been segregated as initial margin for open futures contracts.

ADR—American Depositary Receipt.

CVR—Contingent Value Rights.

REIT—Real Estate Investment Trust.

See accompanying Notes, which are an integral part of the Financial Statements.



## Statement of Operations

	Year Ended December 31, 2016 (\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends <sup>1</sup>	10,298
Interest <sup>1</sup>	234
Securities Lending—Net	1,449
<b>Total Income</b>	<b>11,981</b>
<b>Expenses</b>	
Investment Advisory Fees—Note B	
Basic Fee	1,924
Performance Adjustment	—
The Vanguard Group—Note C	
Management and Administrative	2,326
Marketing and Distribution	239
Custodian Fees	60
Auditing Fees	36
Shareholders' Reports	42
Trustees' Fees and Expenses	2
<b>Total Expenses</b>	<b>4,629</b>
<b>Net Investment Income</b>	<b>7,352</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold <sup>1</sup>	98,448
Futures Contracts	2,369
<b>Realized Net Gain (Loss)</b>	<b>100,817</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	71,422
Futures Contracts	(1,144)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>70,278</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>178,447</b>

<sup>1</sup> Dividend income, interest income, and realized net gain (loss) from affiliated companies of the portfolio were \$150,000, \$226,000, and \$8,000, respectively.

## Statement of Changes in Net Assets

	Year Ended December 31, 2016      2015 (\$000)      (\$000)	
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	7,352	4,360
Realized Net Gain (Loss)	100,817	112,243
Change in Unrealized Appreciation (Depreciation)	70,278	(154,179)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>178,447</b>	<b>(37,576)</b>
<b>Distributions</b>		
Net Investment Income	(4,424)	(4,640)
Realized Capital Gain <sup>1</sup>	(112,327)	(147,415)
<b>Total Distributions</b>	<b>(116,751)</b>	<b>(152,055)</b>
<b>Capital Share Transactions</b>		
Issued	162,394	190,501
Issued in Lieu of Cash Distributions	116,751	152,055
Redeemed	(199,340)	(226,311)
<b>Net Increase (Decrease) from Capital Share Transactions</b>	<b>79,805</b>	<b>116,245</b>
<b>Total Increase (Decrease)</b>	<b>141,501</b>	<b>(73,386)</b>
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>1,255,914</b>	<b>1,329,300</b>
<b>End of Period<sup>2</sup></b>	<b>1,397,415</b>	<b>1,255,914</b>

<sup>1</sup> Includes fiscal 2016 and 2015 short-term gain distributions totaling \$5,320,000 and \$26,347,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$5,413,000 and \$2,485,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net Asset Value, Beginning of Period</b>	<b>\$20.79</b>	<b>\$24.14</b>	<b>\$26.90</b>	<b>\$20.08</b>	<b>\$17.89</b>
<b>Investment Operations</b>					
Net Investment Income	.116	.078	.085	.073	.155
Net Realized and Unrealized Gain (Loss) on Investments	2.547	(.577)	.610	8.674	2.462
Total from Investment Operations	2.663	(.499)	.695	8.747	2.617
<b>Distributions</b>					
Dividends from Net Investment Income	(.074)	(.087)	(.075)	(.160)	(.045)
Distributions from Realized Capital Gains	(1.879)	(2.764)	(3.380)	(1.767)	(.382)
Total Distributions	(1.953)	(2.851)	(3.455)	(1.927)	(.427)
<b>Net Asset Value, End of Period</b>	<b>\$21.50</b>	<b>\$20.79</b>	<b>\$24.14</b>	<b>\$26.90</b>	<b>\$20.08</b>
<b>Total Return</b>	<b>14.94%</b>	<b>-2.75%</b>	<b>3.38%</b>	<b>46.54%</b>	<b>14.65%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$1,397	\$1,256	\$1,329	\$1,406	\$910
Ratio of Total Expenses to Average Net Assets <sup>1</sup>	0.36%	0.37%	0.39%	0.38%	0.38%
Ratio of Net Investment Income to Average Net Assets	0.58%	0.33%	0.34%	0.32%	0.78%
Portfolio Turnover Rate	91%	57%	43%	64%	61%

<sup>1</sup> Includes performance-based investment advisory fee increases (decreases) of 0.00%, (0.01%), 0.01%, 0.01%, and 0.02%.

## Notes to Financial Statements

Vanguard Small Company Growth Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

**A.** The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued at their fair values calculated according to procedures adopted by the board of trustees. These procedures include obtaining quotations from an independent pricing service, monitoring news to identify significant market- or security-specific events, and evaluating changes in the values of foreign market proxies (for example, ADRs, futures contracts, or exchange-traded funds), between the time the foreign markets close and the portfolio's pricing time. When fair-value pricing is employed, the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same securities. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objective of maintaining full exposure to the stock market while maintaining liquidity. The portfolio may purchase or sell futures contracts to achieve a desired level of investment, whether to accommodate portfolio turnover or cash flows from capital share transactions. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract.

Futures contracts are valued at their quoted daily settlement prices. The aggregate settlement values of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2016, the portfolio's average investments in long and short futures contracts represented 2% and 0% of net assets, respectively, based on the average of aggregate settlement values at each quarter-end during the period.

3. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2013–2016), and for the period ended December 31, 2016, and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

5. **Securities Lending:** To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the absence of a default the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Net Assets for the return of the collateral, during the period the securities are on loan. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

6. **Credit Facility:** The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and included in Management and Administrative expenses on the portfolio's Statement of Operations. Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2016, or at any time during the period then ended.

7. Other: Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

**B.** Granahan Investment Management, Inc., and beginning January 2016, Arrowpoint Asset Management, LLC, each provide investment advisory services to a portion of the portfolio for a fee calculated at an annual percentage rate of average net assets managed by the advisor. The basic fee of Granahan Investment Management, Inc., is subject to quarterly adjustments based on performance relative to the Russell 2000 Growth Index for the preceding three years. In accordance with the advisory contract entered into with Arrowpoint Asset Management, LLC, beginning January 1, 2017, the investment advisory fee will be subject to quarterly adjustments based on performance since March 31, 2016, relative to the Russell 2500 Growth Index.

Vanguard provides investment advisory services to a portion of the portfolio as described below; the portfolio paid Vanguard advisory fees of \$313,000 for the year ended December 31, 2016.

For the year ended December 31, 2016, the aggregate investment advisory fee paid to all advisors represented an effective annual basic rate of 0.15% of the portfolio's average net assets, with no net increase or decrease based on performance.

**C.** In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At December 31, 2016, the portfolio had contributed to Vanguard capital in the amount of \$105,000, representing 0.01% of the portfolio's net assets and 0.04% of Vanguard's capitalization. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

**D.** Various inputs may be used to determine the value of the portfolio's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the portfolio's own assumptions used to determine the fair value of investments).

The following table summarizes the market value of the portfolio's investments as of December 31, 2016, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,329,303	—	—
Temporary Cash Investments	89,255	2,596	—
Futures Contracts—Liabilities <sup>1</sup>	(195)	—	—
Total	1,418,363	2,596	—

<sup>1</sup> Represents variation margin on the last day of the reporting period.

E. At December 31, 2016, the aggregate settlement value of open futures contracts and the related unrealized appreciation (depreciation) were:

			(\$000)	
Futures Contracts	Expiration	Number of Long (Short) Contracts	Aggregate Settlement Value	Unrealized Appreciation
			Long (Short)	(Depreciation)
E-mini Russell 2000 Index	March 2017	686	46,542	(887)

Unrealized appreciation (depreciation) on open futures contracts is required to be treated as realized gain (loss) for tax purposes.

F. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For tax purposes, at December 31, 2016, the portfolio had \$40,814,000 of ordinary income and \$65,528,000 of long-term capital gains available for distribution.

At December 31, 2016, the cost of investment securities for tax purposes was \$1,284,795,000. Net unrealized appreciation of investment securities for tax purposes was \$136,359,000, consisting of unrealized gains of \$213,178,000 on securities that had risen in value since their purchase and \$76,819,000 in unrealized losses on securities that had fallen in value since their purchase.

G. During the year ended December 31, 2016, the portfolio purchased \$1,113,597,000 of investment securities and sold \$1,138,608,000 of investment securities, other than temporary cash investments.

H. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2016 Shares (000)	2015 Shares (000)
Issued	8,177	8,503
Issued in Lieu of Cash Distributions	6,660	6,890
Redeemed	(10,263)	(10,036)
Net Increase (Decrease) in Shares Outstanding	4,574	5,357

At December 31, 2016, one shareholder, an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders, was the record or beneficial owner of 49% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

I. Management has determined that no material events or transactions occurred subsequent to December 31, 2016, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and the Shareholders of Small Company Growth Portfolio:

In our opinion, the accompanying statement of net assets and the statement of assets and liabilities, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Small Company Growth Portfolio (constituting a separate portfolio of Vanguard Variable Insurance Funds, hereafter referred to as the "Portfolio") at December 31, 2016, 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. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2016 by correspondence with the custodian and brokers and by agreement to the underlying ownership records of the transfer agent, provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2017

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### Special 2016 tax information (unaudited) for corporate shareholders only for Vanguard Small Company Growth Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2016, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$107,006,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 18.4% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

## About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The table below illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, 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 given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2016

	Beginning Account Value 6/30/2016	Ending Account Value 12/31/2016	Expenses Paid During Period <sup>1</sup>
Small Company Growth Portfolio			
Based on Actual Fund Return	\$1,000.00	\$1,134.12	\$2.04
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.23	1.93

<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.38%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (184/366).

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals.

## Interested Trustee<sup>1</sup>

### F. William McNabb III

Born 1957. Trustee Since July 2009. Chairman of the Board. Principal Occupation(s) During the Past Five Years and Other Experience: Chairman of the Board of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group, since January 2010; Director of The Vanguard Group since 2008; Chief Executive Officer and President of The Vanguard Group, and of each of the investment companies served by The Vanguard Group, since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Executive Chief Staff and Marketing Officer for North America and Corporate Vice President (retired 2008) of Xerox Corporation (document management products and services); Executive in Residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology; Lead Director of SPX FLOW, Inc. (multi-industry manufacturing); Director of the United Way of Rochester, the University of Rochester Medical Center, Monroe Community College Foundation, North Carolina A&T University, and Roberts Wesleyan College.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years and Other Experience: Chairman and Chief Executive Officer (retired 2009) and President (2006–2008) of Rohm and Haas Co. (chemicals); Director of Tyco International plc (diversified manufacturing and services), HP Inc. (printer and personal computer manufacturing), and Delphi Automotive plc (automotive components); Senior Advisor at New Mountain Capital.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years and Other Experience: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and Professor of Communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania; Trustee of the National Constitution Center; Chair of the Presidential Commission for the Study of Bioethical Issues.

### JoAnn Heffernan Heisen

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years and Other Experience: Corporate Vice President and Chief Global Diversity Officer (retired 2008) and

Member of the Executive Committee (1997–2008) of Johnson & Johnson (pharmaceuticals/medical devices/consumer products); Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation; Member of the Advisory Board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born 1949. Trustee Since October 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2009) of Cummins Inc. (industrial machinery); Chairman of the Board of Hillenbrand, Inc. (specialized consumer services), and of Oxfam America; Director of SKF AB (industrial machinery), Hyster-Yale Materials Handling, Inc. (forklift trucks), the Lumina Foundation for Education, and the V Foundation for Cancer Research; Member of the Advisory Council for the College of Arts and Letters and of the Advisory Board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born 1953. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Senior Vice President and Chief Financial Officer (retired 2013) at IBM (information technology services); Fiduciary Member of IBM's Retirement Plan Committee (2004–2013); Director of the Dow Chemical Company; Member of the Council on Chicago Booth.

### Scott C. Malpass

Born 1962. Trustee Since March 2012. Principal Occupation(s) During the Past Five Years and Other Experience: Chief Investment Officer and Vice President at the University of Notre Dame; Assistant Professor of Finance at the Mendoza College of Business at Notre Dame; Member of the Notre Dame 403(b) Investment Committee, the Board of Advisors for Spruceview Capital Partners, and the Investment Advisory Committee of Major League Baseball; Board Member of TIFF Advisory Services, Inc., and Catholic Investment Services, Inc. (investment advisors).

### André F. Perold

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years and Other Experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011); Chief Investment Officer and Managing Partner of HighVista Strategies LLC (private investment firm); Director of Rand Merchant Bank; Overseer of the Museum of Fine Arts Boston.

### Peter F. Volanakis

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years and Other Experience: President and Chief Operating Officer (retired 2010) of Corning Incorporated (communications equipment); Chairman of the Board of Trustees of Colby-Sawyer College; Member of the Advisory Board of the Norris Cotton Cancer Center.

The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 198 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Executive Officers

### Glenn Booraem

Born 1967. Treasurer Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group; Controller of each of the investment companies served by The Vanguard Group (2010–2015); Assistant Controller of each of the investment companies served by The Vanguard Group (2001–2010).

### Thomas J. Higgins

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years and Other Experience: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

### Peter Mahoney

Born 1974. Controller Since May 2015. Principal Occupation(s) During the Past Five Years and Other Experience: Head of Global Fund Accounting at The Vanguard Group, Inc.; Controller of each of the investment companies served by The Vanguard Group; Head of International Fund Services at The Vanguard Group (2008–2014).

### Anne E. Robinson

Born 1970. Secretary Since September 2016. Principal Occupation(s) During the Past Five Years and Other Experience: Managing Director of The Vanguard Group, Inc.; General Counsel of The Vanguard Group; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group; Director and Senior Vice President of Vanguard Marketing Corporation; Managing Director and General Counsel of Global Cards and Consumer Services at Citigroup (2014–2016); Counsel at American Express (2003–2014).

## Vanguard Senior Management Team

Mortimer J. Buckley  
Martha G. King  
John T. Marcante  
Chris D. McIsaac  
James M. Norris

Thomas M. Rampulla  
Glenn W. Reed  
Karin A. Risi  
Michael Rollings

## Chairman Emeritus and Senior Advisor

### John J. Brennan

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

## Founder

### John C. Bogle

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> Mr. McNabb is considered an "interested person," as defined in the Investment Company Act of 1940, because he is an officer of the Vanguard funds.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.

**Connect with Vanguard®** > [vanguard.com](http://vanguard.com)

**Fund Information** > 800-662-7447

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**Text Telephone for People**

**Who Are Deaf or Hard of Hearing** > 800-749-7273

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You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://sec.gov). In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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