



## ANNUAL REPORT

December 31, 2018

T. ROWE PRICE

# Health Sciences Portfolio

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## HIGHLIGHTS

- The Health Sciences Portfolio returned 1.11% in the 12 months ended December 31, 2018. The portfolio underperformed its benchmark, the Lipper Variable Annuity Underlying Health/Biotechnology Funds Average, but outpaced the broad market as measured by the S&P 500 Index.
- Stock selection in the life sciences and biotechnology segments detracted from relative performance, while stock selection in pharmaceuticals was a solid contributor.
- We believe that stock selection will be a more important factor than industry allocation decisions in generating outperformance.
- We invest in companies that are developing new and effective therapies for unmet medical needs as well as businesses that aim to reduce costs or improve quality in the health care system.

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## Dear Investor

The year 2018 was not one that investors will remember fondly. The major stock indexes recorded their worst declines in a decade, with most falling over 20% from recent peaks and bringing a technical end to the bull market that began in 2009. In direct contrast to 2017, financial assets performed poorly across asset classes and geographies. The broadest measure of domestic bond returns, the Bloomberg Barclays U.S. Aggregate Bond Index, returned exactly nothing (0.0%) for the year, and nearly all overseas bond and equity markets also performed poorly. “Cash was king,” in Wall Street parlance, which never makes for a happy reign.

Many issues were behind the market weakness, but we can point to four primary factors that weighed on sentiment:

*Rising interest rates.* Wage pressures appeared to be accelerating early in the year, sending longer-term bond yields to multiyear highs and sparking a sell-off in equities in early February. Wage gains soon moderated, but a continued decline in the unemployment rate—which reached a five-decade low of 3.7% in September—kept investors on the lookout for higher inflation ahead. In October, yields returned to their peaks on the back of good economic data and suggestions from Federal Reserve officials that they might keep hiking interest rates more quickly than expected. This was subsequently followed by a decline in long-term rates as investors sought safety late in the year and questioned the pace of future interest rate hikes.

*Trade tensions.* On March 1, President Donald Trump took markets by surprise in announcing a new series of metal tariffs. His administration quickly adopted a decidedly protectionist stance, with pro-trade advocates leaving and the announcement of plans for a range of new trade restrictions. Many threats never materialized, and the White House announced a renegotiated trade deal with Canada and Mexico. Trade tensions with China only appeared to deepen as the year progressed, however.

*Slowing global growth.* A global slowdown became apparent in the second half of 2018. Environmental and financial reforms put the brakes on the Chinese economy, as planned, but trade frictions caused growth to slow below official targets. Other emerging markets suffered from a stronger U.S. dollar and higher U.S. interest rates. In Europe, trade worries also hampered business spending, while unresolved Brexit fears and further threats to the eurozone from Italy and elsewhere also took a toll. Plummeting oil prices late in the year seemed to confirm a general weakening in global economic conditions.

*Peaking fundamentals.* The U.S. economy stood apart by accelerating in 2018, but a moderation in 2019 appears all but inevitable as the effects of fiscal stimulus moderate. Of specific concern to investors is the almost certain slowdown in

corporate profits in the coming year. Overall profits for the S&P 500 grew by 25% versus the year before in the first three quarters of 2018—a pace sure to slow as the year-over-year impact of the tax cut fades, wage gains pressure margins, and the global economy cools.

The market’s dramatic pullback in the final weeks of 2018—stocks suffered their worst December since the Great Depression—seemed to reflect fears that a recession might even be imminent. I think such concerns are overblown. The Fed has already completed most of its planned rate hikes, promising less of a headwind for the economy and markets. China and Europe are likely to respond to slowing growth with stimulus, and both will benefit from lower oil prices. As I write, some encouraging signs have also emerged on the trade front, although whether the U.S. and China can resolve their differences remains perhaps the largest uncertainty facing markets.

In terms of stock performance, the painful end to 2018 served to improve valuations, making gains in the coming year less of a hurdle. I would also note that a further stock market “bust” in 2019 seems unlikely given that we never experienced the concentrated “boom” that has preceded past bad bear markets. In the final stages of the dot-com boom of the late 1990s, for example, investors flooded in to telecom shares, and huge amounts of capital and risk flowed in to housing in the mid-2000s. Currently, I simply do not see those sorts of distortions in the financial system.

Of course, opinions about what 2019 holds vary among our investment professionals at T. Rowe Price, and we sharpen each other’s thinking by constantly sharing opinions and insights. Please rest assured that your fund’s manager is drawing on the insights and perspectives across our global organization as he or she charts the course ahead.

Thank you for your continued confidence in T. Rowe Price.

Sincerely,



Robert Sharps  
Group Chief Investment Officer

## INVESTMENT OBJECTIVE

The fund seeks long-term capital appreciation.

## FUND COMMENTARY

### How did the portfolio perform in the past 12 months?

The Health Sciences Portfolio returned 1.11% in the 12 months ended December 31, 2018. The portfolio underperformed its benchmark, the Lipper Variable Annuity Underlying Health/Biotechnology Funds Average, but outperformed the broad U.S. equity market as measured by the S&P 500 Index. (Returns for the II Class shares varied slightly, reflecting their different fee structure. *Past performance cannot guarantee future results.*)

#### PERFORMANCE COMPARISON

Periods Ended 12/31/18	Total Return	
	6 Months	12 Months
Health Sciences Portfolio	-6.08%	1.11%
Health Sciences Portfolio-II	-6.19	0.86
S&P 500 Index	-6.85	-4.38
Lipper Variable Annuity Underlying Health/Biotechnology Funds Average	-4.07	1.45

### What factors influenced the portfolio's performance?

The products and devices industry group hurt our relative returns, although the segment generated a solid absolute performance contribution. Biotechnology holdings detracted from relative performance due to stock selection. Our holdings in the pharmaceuticals industry helped absolute and relative performance, mostly due to stock selection. Our overweight to companies in the services segment early in the period detracted from relative returns for the year. Stock selection in the life sciences industry hurt relative performance but was partly offset by a favorable overweight to the segment.

The products and devices industry group detracted the most from relative performance because of stock selection and our underweight allocation. **Hologic** was our largest detractor within the industry group for the year. The company's legacy business in manufacturing medical diagnostics for women generated steady growth. However, the integration of Cynosure, a maker of laser and medical treatments that Hologic acquired in 2017, remains challenging. We believe that Hologic's core business is solid, and the stock offers an attractive long-term risk/reward opportunity. (Please refer to the portfolio of investments for a complete list of holdings and the amount each represents in the portfolio.)

Stock selection within biotechnology detracted. **SAGE Therapeutics**, which is focused on developing novel therapeutics for central nervous system disorders, trended

lower throughout much of 2018. Investors took profits following the stock's strong gains in 2017, and pipeline updates on its postpartum depression drug were delayed until 2019. We have high conviction in SAGE given the potential for its postpartum depression and depressive disorders treatments.

**Alnylam Pharmaceuticals** slid on concerns of heightened competition for the treatment of hereditary transthyretin-mediated amyloidosis in adults, which is a slowly progressive condition. While the U.S. Food and Drug Administration (FDA) approved Alnylam's RNAi treatment for the disease at the end of August, the commercial launch was generally viewed as disappointing.

The pharmaceuticals sector was the top contributor to relative performance primarily due to stock selection. **Merck** continued to consolidate its lead over competitors in lung cancer treatment with Keytruda. The stock gained 40% in 2018 as the company expanded its market share in treatments for several types of cancer, including the largest indication of first-line non-small cell lung cancer. The company also benefited from higher sales of Gardasil, which prevents certain cancers and other diseases caused by human papillomavirus. We expect to see significant future growth in Keytruda in the U.S. and internationally, where the broader first-line chemotherapy combination indication has only recently been approved for lung cancer.

Other strong contributors in the pharmaceuticals segment included **Endocyte**, which announced that it had enrolled its first patient in a late-stage clinical trial for its leading product, PSMA-617, in June. The drug has shown high response rates and low toxicity, along with improved quality of life and pain reduction, for prostate cancer patients for whom conventional therapies have failed. The stock rallied in October on the announcement of the company's acquisition by **Novartis**. **Amarin**, a biopharmaceutical company focused on cardiovascular medicines, surged more than 300% in September after the company announced that topline results from the Vascepa cardiovascular outcomes trial, REDUCE-IT, met its primary endpoint.

### How is the portfolio positioned?

We attempt to maintain broad industry diversification across the entire health care sector. However, we do not attempt to mirror the benchmark's allocations. Our large allocation to the biotechnology and pharmaceuticals segments stems from our belief that the discovery, development, manufacture, and commercialization of medicines or therapeutic devices is the primary driver of long-term value in the health care sector. Typically, pharmaceutical companies have a large base of revenues and income, and one drug—even if it is extremely successful—may not be enough to affect the bottom line significantly.

**INDUSTRY DIVERSIFICATION**

	Percent of Net Assets	
	6/30/18	12/31/18
Biotechnology	37.9%	30.5%
Services	23.3	23.9
Products and Devices	19.4	20.1
Pharmaceuticals	11.5	15.8
Life Sciences	8.1	8.9
Other and Reserves	-0.2	0.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Historical weightings reflect current industry/sector classifications.

Conversely, the successful introduction of one important new medicine can materially affect the revenues and earnings of a smaller biotechnology company. As such, we devote substantial time and resources to identifying smaller, earlier-stage companies that are developing new and innovative medicines or treatments for unmet medical needs. Although investing in smaller companies entails more risk because their performance is often closely tied to the success of a single drug, we manage this risk in part through broad diversification and actively controlling our position sizes.

In the services segment—a broad category that includes payors, providers, drug distributors, and health care technology companies—we have selectively taken profits and are now underweight our benchmark. Within our services holdings, we have reduced our overweight exposure to managed care since the first-quarter sell-off, and we remain underweight the drug supply chain. We are also underweight products and devices companies, particularly among the smaller-cap stocks, given their relatively high valuations. Broadly speaking, the life sciences segment provides technologies that enable experimentation to occur. Although life sciences represents our smallest industry allocation, we remain overweight versus our benchmark.

**What is portfolio management's outlook?**

The health care sector continues to benefit from rapid innovation. We are encouraged to see many companies demonstrating a high level of innovation, as reflected by the record number of drug approvals (59) by the FDA in 2018. This increase has been supported by a sizable pipeline of potentially transformative medicines in multiple stages of clinical and regulatory development due to the advancement of technology and improving science, as well as a favorable regulatory environment. A potential uptick in merger and acquisition activity would be another tailwind for the sector in the near term. Valuations for many smaller-cap biotechnology companies, having pulled back through the end of 2018, have become more reasonably priced for larger biopharmaceutical companies that are seeking ways to expand their drug pipelines and have ample cash on their balance sheets.

The mid-December ruling by a federal judge in Texas declaring the Affordable Care Act (ACA) unconstitutional introduced potential headwinds for the managed care industry, especially among companies leveraged to Medicaid. However, the ACA will remain intact through the appeals process, which will likely be lengthy. While the individual mandate may be deemed unconstitutional and the closely related guarantee issue and community rating provisions (i.e., the insurance requirements) struck down, we expect the bulk of the ACA to remain in place. Overall, we still have a favorable view on managed care and provider names. Those that have Medicare businesses would benefit from a repeal of the ACA, so there is a natural hedge in some of the companies.

We continue to find no shortage of attractive growth opportunities across the health care landscape. Positive long-term dynamics include the rising number of baby boomers reaching retirement age, the rapid pace of scientific advances and prospects for safer and better medicines, and society's willingness to spend on health care as people live longer and demand a higher quality of life.

The views expressed reflect the opinions of T. Rowe Price as of the date of this report and are subject to change based on changes in market, economic, or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**RISKS OF GROWTH INVESTING**

Growth stocks can be volatile for several reasons. Since these companies usually invest a high portion of earnings in their businesses, they may lack the dividends of value stocks that can cushion stock prices in a falling market. Also, earnings disappointments often lead to sharply falling prices because investors buy growth stocks in anticipation of superior earnings growth.

**RISKS OF HEALTH SCIENCES INVESTING**

Portfolios that invest only in specific industries will experience greater volatility than those investing in a broad range of industries. Companies in the health sciences field are subject to special risks such as increased competition within the health care industry, changes in legislation or government regulations, reductions in government funding, product liability or other litigation, and the obsolescence of popular products.

**TWENTY-FIVE LARGEST HOLDINGS**

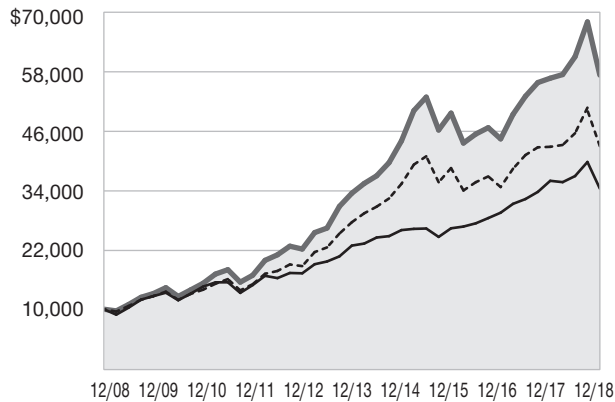
	<b>Percent of Net Assets 12/31/18</b>
UnitedHealth Group	7.7%
Intuitive Surgical	4.9
Becton, Dickinson & Company	4.8
Vertex Pharmaceuticals	3.8
Anthem	3.2
Cigna	3.0
Thermo Fisher Scientific	3.0
Pfizer	2.9
Stryker	2.4
Eli Lilly	2.3
Alexion Pharmaceuticals	2.0
HCA Healthcare	2.0
Agilent Technologies	1.9
Centene	1.9
Merck	1.7
Danaher	1.6
Novartis	1.6
Humana	1.6
SAGE Therapeutics	1.5
Sarepta Therapeutics	1.4
AstraZeneca	1.3
Regeneron Pharmaceuticals	1.2
Hologic	1.2
WellCare Health Plans	1.2
Biogen	1.1
<b>Total</b>	<b>61.2%</b>

Note: The information shown does not reflect any exchange-traded funds (ETFs), cash reserves, or collateral for securities lending that may be held in the portfolio.

## GROWTH OF \$10,000

This chart shows the value of a hypothetical \$10,000 investment in the portfolio over the past 10 fiscal year periods or since inception (for portfolios lacking 10-year records). The result is compared with benchmarks, which include a broad-based market index and may also include a peer group average or index. Market indexes do not include expenses, which are deducted from portfolio returns as well as mutual fund averages and indexes.

### HEALTH SCIENCES PORTFOLIO



As of 12/31/18

— Health Sciences Portfolio	\$57,175
— S&P 500 Index	\$34,304
--- Lipper Variable Annuity Underlying Health/Biotechnology Funds Average	\$43,395

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 12/31/18	1 Year	5 Years	10 Years
Health Sciences Portfolio	1.11%	11.37%	19.05%
Health Sciences Portfolio-II	0.86	11.09	18.75

The fund's performance information represents only past performance and is not necessarily an indication of future results. Current performance may be lower or higher than the performance data cited. Share price, principal value, and return will vary, and you may have a gain or loss when you sell your shares. For the most recent month-end performance, please contact a T. Rowe Price representative at 1-800-469-6587 (financial advisors, or customers who have an advisor, should call 1-800-638-8790). Total returns do not include charges imposed by your insurance company's separate account. If these had been included, performance would have been lower.

This table shows how the portfolio would have performed each year if its actual (or cumulative) returns for the periods shown had been earned at a constant rate. Average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions. When assessing performance, investors should consider both short- and long-term returns.

## FUND EXPENSE EXAMPLE

As a mutual fund shareholder, you may incur two types of costs: (1) transaction costs, such as redemption fees or sales loads, and (2) ongoing costs, including management fees, distribution and service (12b-1) fees, and other fund expenses. The following example is intended to help you understand your ongoing costs (in dollars) of investing in the fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the most recent six-month period and held for the entire period.

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)****HEALTH SCIENCES PORTFOLIO**

	Beginning Account Value 7/1/18	Ending Account Value 12/31/18	Expenses Paid During Period* 7/1/18 to 12/31/18
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**Health Sciences Portfolio**

Actual	\$1,000.00	\$939.20	\$4.59
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Hypothetical

(assumes 5% return

before expenses)	1,000.00	1,020.47	4.79
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**Health Sciences Portfolio-II**

Actual	1,000.00	938.10	5.81
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Hypothetical

(assumes 5% return

before expenses)	1,000.00	1,019.21	6.06
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\* 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 (365) to reflect the half-year period. The annualized expense ratio of the Health Sciences Portfolio was 0.94%, and the Health Sciences Portfolio-II was 1.19%.



**FINANCIAL HIGHLIGHTS**

For a share outstanding throughout each period

**Health Sciences Class**

	Year Ended 12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 42.33	\$ 34.64	\$ 38.98	\$ 37.40	\$ 30.65
Investment activities					
Net investment loss <sup>(1)(2)</sup>	(0.05)	(0.07)	(0.09)	(0.14)	(0.09)
Net realized and unrealized gain / loss	0.55	9.62	(3.99)	4.88	9.74
Total from investment activities	0.50	9.55	(4.08)	4.74	9.65
Distributions					
Net realized gain	(2.49)	(1.86)	(0.26)	(3.16)	(2.90)
<b>NET ASSET VALUE</b>					
End of period	\$ 40.34	\$ 42.33	\$ 34.64	\$ 38.98	\$ 37.40

**Ratios/Supplemental Data**

<b>Total return<sup>(2)(3)</sup></b>	<b>1.11%</b>	<b>27.58%</b>	<b>(10.48)%</b>	<b>12.76%</b>	<b>31.57%</b>
Ratios to average net assets: <sup>(2)</sup>					
Gross expenses before waivers/payments by Price Associates	0.95%	0.95%	0.95%	0.95%	0.95%
Net expenses after waivers/payments by Price Associates	0.95%	0.95%	0.95%	0.95%	0.95%
Net investment loss	(0.12)%	(0.17)%	(0.27)%	(0.33)%	(0.26)%
Portfolio turnover rate	45.5%	42.8%	28.5%	31.6%	43.0%
Net assets, end of period (in thousands)	\$ 95,922	\$ 88,840	\$ 71,085	\$ 100,233	\$ 75,142

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.<sup>(2)</sup> See Note 6 for details of expense-related arrangements with Price Associates.<sup>(3)</sup> Total return reflects the rate that an investor would have earned on an investment in the fund during each period, assuming reinvestment of all distributions.

The accompanying notes are an integral part of these financial statements.

**FINANCIAL HIGHLIGHTS**

For a share outstanding throughout each period

**Health Sciences–II Class**

	Year Ended 12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
<b>NET ASSET VALUE</b>					
Beginning of period	\$ 40.73	\$ 33.38	\$ 37.67	\$ 36.25	\$ 29.80
Investment activities					
Net investment loss <sup>(1)(2)</sup>	(0.17)	(0.16)	(0.18)	(0.24)	(0.17)
Net realized and unrealized gain / loss	0.55	9.27	(3.85)	4.73	9.45
Total from investment activities	0.38	9.11	(4.03)	4.49	9.28
Distributions					
Net realized gain	(2.49)	(1.76)	(0.26)	(3.07)	(2.83)
<b>NET ASSET VALUE</b>					
End of period	\$ 38.62	\$ 40.73	\$ 33.38	\$ 37.67	\$ 36.25

**Ratios/Supplemental Data**

<b>Total return<sup>(2)(3)</sup></b>	<b>0.86%</b>	<b>27.31%</b>	<b>(10.72)%</b>	<b>12.47%</b>	<b>31.22%</b>
Ratios to average net assets: <sup>(2)</sup>					
Gross expenses before waivers/payments by Price Associates	1.20%	1.20%	1.20%	1.20%	1.20%
Net expenses after waivers/payments by Price Associates	1.20%	1.20%	1.20%	1.20%	1.20%
Net investment loss	(0.39)%	(0.42)%	(0.52)%	(0.58)%	(0.51)%
Portfolio turnover rate	45.5%	42.8%	28.5%	31.6%	43.0%
Net assets, end of period (in thousands)	\$ 434,528	\$ 603,253	\$ 492,442	\$ 672,690	\$ 500,848

<sup>(1)</sup> Per share amounts calculated using average shares outstanding method.<sup>(2)</sup> See Note 6 for details of expense-related arrangements with Price Associates.<sup>(3)</sup> Total return reflects the rate that an investor would have earned on an investment in the fund during each period, assuming reinvestment of all distributions.

The accompanying notes are an integral part of these financial statements.

December 31, 2018

**PORTFOLIO OF INVESTMENTS†****Shares/Par      \$ Value**

(Cost and value in \$'000s)

**COMMON STOCKS 97.7%****Biotechnology 28.4%****Major Biotechnology 10.0%**

Alkermes (1)	28,015	827
Amgen	24,843	4,836
Array BioPharma (1)	112,324	1,601
Biogen (1)	20,111	6,052
Celgene (1)	44,712	2,865
Exact Sciences (1)	42,300	2,669
Gilead Sciences	55,726	3,486
Kyowa Hakko Kirin (JPY)	40,800	771
Neurocrine Biosciences (1)	75,596	5,398
Seattle Genetics (1)	46,516	2,635
Vertex Pharmaceuticals (1)	122,466	20,294
Zogenix (1)	39,600	1,444
		52,878

**Other Biotechnology 18.4%**

ACADIA Pharmaceuticals (1)	111,709	1,806
Accelaron Pharma (1)	73,112	3,184
Acerta Pharma, Class B, Acquisition Date: 5/12/15, Cost \$203 (1)(2)(3)	8,013,195	561
Agiros Pharmaceuticals (1)	24,581	1,133
Aimmune Therapeutics (1)	56,062	1,341
Alder Biopharmaceuticals (1)	121,369	1,244
Alexion Pharmaceuticals (1)	107,971	10,512
Allogene Therapeutics, Acquisition Date: 9/5/18, Cost \$512 (3)	33,470	856
Allogene Therapeutics (1)	14,621	394
Alnylam Pharmaceuticals (1)	27,954	2,038
AnaptysBio (1)	10,210	651
Ascendis Pharma, ADR (1)	44,192	2,769
Atara Biotherapeutics (1)	35,860	1,246
Audentes Therapeutics (1)	22,053	470
BeiGene, Acquisition Date: 4/21/15, Cost \$0 (3)	4	—
BeiGene, ADR (1)	14,706	2,063
BioMarin Pharmaceutical (1)	55,687	4,742
Bluebird Bio (1)	30,047	2,981

**Shares/Par      \$ Value**

(Cost and value in \$'000s)

Blueprint Medicines (1)	35,901	1,935
Corvus Pharmaceuticals (1)	26,399	97
Editas Medicine (1)	13,150	299
Enanta Pharmaceuticals (1)	22,272	1,578
Exelixis (1)	38,099	749
Fate Therapeutics (1)	30,089	386
FibroGen (1)	35,767	1,655
Five Prime Therapeutics (1)	15,650	146
G1 Therapeutics (1)	34,878	668
Global Blood Therapeutics (1)	29,244	1,201
GlycoMimetics (1)	44,484	421
ImmunoGen (1)	37,800	182
Immunomedics (1)	206,114	2,941
Incyte (1)	80,209	5,101
Insmed (1)	93,989	1,233
Ionis Pharmaceuticals (1)	16,861	912
Loxo Oncology (1)	28,360	3,972
Merus NV (1)	12,600	176
Minerva Neurosciences (1)	40,633	274
Moderna (1)	1,619	25
Moderna, Acquisition Date: 1/31/18, Cost \$400 (3)	18,226	264
MyoKardia (1)	24,689	1,206
Myovant Sciences (1)	29,376	482
Nektar Therapeutics (1)	25,507	838
Novocure (1)	43,600	1,460
Regeneron Pharmaceuticals (1)	16,900	6,312
REGENXBIO (1)	16,400	688
Rhythm Pharmaceuticals (1)	9,748	262
Rocket Pharmaceuticals (1)	20,648	306
RPI International Holdings Partnership, Acquisition Date: 5/21/15, Cost \$680 (2)(3)	5,765	885
Sage Therapeutics (1)	84,509	8,095
Sarepta Therapeutics (1)	70,000	7,639
Spark Therapeutics (1)	31,347	1,227
TherapeuticsMD (1)	65,898	251
Theravance Biopharma (1)	13,409	343
Tocagen (1)	19,482	160
Ultragenyx Pharmaceutical (1)	39,853	1,733
WaVe Life Sciences (1)	11,108	467

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Xencor (1)	77,709	2,810
Zai Lab, ADR (1)	16,959	394
		97,764
Total Biotechnology		150,642
<b>Life Sciences 8.8%</b>		
<b>Life Sciences 8.8%</b>		
Abcam (GBP)	53,868	750
Agilent Technologies	152,818	10,309
Bruker	68,969	2,053
Danaher	83,700	8,631
GenMark Diagnostics (1)	133,427	648
Illumina (1)	13,364	4,008
Mettler-Toledo International (1)	3,400	1,923
Quanterix (1)	36,096	661
Quidel (1)	38,993	1,904
Thermo Fisher Scientific	70,021	15,670
Total Life Sciences		46,557
<b>Pharmaceuticals 14.9%</b>		
<b>European Major - Pharmaceuticals 0.0%</b>		
Zeneca, Acquisition Date:		
7/18/13, Cost \$ — (1)(2)(3)	12,799	8
		8
<b>Major Pharmaceuticals 14.6%</b>		
AbbVie	32,519	2,998
Abeona Therapeutics (1)	42,383	303
Allergan	25,700	3,435
Amarin, ADR (1)	110,194	1,500
Astellas Pharma (JPY)	38,700	494
AstraZeneca, ADR	184,800	7,019
Bristol-Myers Squibb	55,237	2,871
Chugai Pharmaceutical (JPY)	26,700	1,548
Daiichi Sankyo (JPY)	66,300	2,121
Eisai (JPY)	23,000	1,781
Eli Lilly	107,400	12,428
Ironwood Pharmaceuticals (1)	49,419	512
Merck	119,183	9,107
Novartis (CHF)	99,944	8,560
Pfizer	352,700	15,395

	Shares/Par	\$ Value
(Cost and value in \$000s)		
Roche Holding (CHF)	17,824	4,425
Shire, ADR	15,103	2,628
		77,125
<b>Specialty Pharmaceuticals 0.3%</b>		
Cara Therapeutics (1)	28,206	366
GW Pharmaceuticals, ADR (1)	9,404	916
Madrigal Pharmaceuticals (1)	3,566	402
		1,684
Total Pharmaceuticals		78,817
<b>Products &amp; Devices 17.6%</b>		
<b>Implants 13.7%</b>		
Align Technology (1)	12,526	2,623
Becton Dickinson & Company	107,610	24,247
Intuitive Surgical (1)	54,775	26,233
Stryker	81,291	12,742
Teleflex	16,420	4,244
Wright Medical Group (1)	92,281	2,512
Wright Medical Group, Rights, 1/2/24 (1)	3,200	—
		72,601
<b>Other Products &amp; Devices 3.9%</b>		
Argenx, ADR (1)	31,683	3,044
Cooper	18,186	4,628
DexCom (1)	6,536	783
Hologic (1)	152,765	6,279
ICU Medical (1)	13,678	3,141
JAND, Class A, Acquisition Date: 4/23/15 - 3/9/18, Cost \$353 (1)(2)(3)	29,873	457
Lantheus Holdings (1)	48,766	763
Penumbra (1)	13,262	1,621
		20,716
Total Products & Devices		93,317
<b>Services 23.5%</b>		
<b>Distribution 0.5%</b>		
CVS Health	44,091	2,889
		2,889

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Other Services 1.0%</b>		
Elanco Animal Health (1)	21,886	690
Guardant Health (1)	11,562	435
Guardant Health, Acquisition Date: 5/9/17, Cost \$241 (3)	21,668	774
HTG Molecular Diagnostics (1)	74,012	188
West Pharmaceutical Services	33,000	3,235
		5,322
<b>Payors 19.2%</b>		
Anthem	64,084	16,831
Centene (1)	88,702	10,227
Cigna	83,889	15,932
Humana	28,746	8,235
Molina Healthcare (1)	28,591	3,323
UnitedHealth Group	164,833	41,063
WellCare Health Plans (1)	25,921	6,120
		101,731
<b>Providers 2.8%</b>		
Acadia Healthcare (1)	35,784	920
DaVita (1)	19,021	979
HCA Healthcare	83,290	10,365
Teladoc Health (1)	31,300	1,551
Universal Health Services, Class B	9,425	1,099
		14,914
Total Services		124,856
Total Miscellaneous Common Stocks 4.5% (4)		23,897
<b>Total Common Stocks (Cost \$371,219)</b>		<b>518,086</b>
<b>PREFERRED STOCKS 0.2%</b>		
Total Miscellaneous Preferred Stocks 0.2% (4)		957
<b>Total Preferred Stocks (Cost \$1,141)</b>		<b>957</b>

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>CONVERTIBLE PREFERRED STOCKS 1.2%</b>		
<b>Products &amp; Devices 0.9%</b>		
<b>Capital Equipment 0.1%</b>		
Reflexion Medical, Series C, Acquisition Date: 4/3/18, Cost \$255 (1)(2)(3)	150,708	255
		255
<b>Implants 0.5%</b>		
Becton Dickinson & Company, Series A, 6.125%, 5/1/20	18,082	1,040
Kardium, Series D, Acquisition Date: 11/29/18, Cost \$391 (2)(3)	403,778	391
Outset Medical, Series C, Acquisition Date: 4/19/17, Cost \$724 (1)(2)(3)	279,529	869
Outset Medical, Series D, Acquisition Date: 8/20/18, Cost \$503 (1)(2)(3)	161,707	503
		2,803
<b>Other Products &amp; Devices 0.3%</b>		
JAND, Series D, Acquisition Date: 4/23/15, Cost \$709 (1)(2)(3)	61,723	944
JAND, Series E, Acquisition Date: 3/9/18, Cost \$43 (1)(2)(3)	2,753	42
Shockwave Medical, Series A-1, Acquisition Date: 9/25/17, Cost \$58 (1)(2)(3)	57,336	65
Shockwave Medical, Series B, Acquisition Date: 9/25/17, Cost \$1 (1)(2)(3)	1,171	1
Shockwave Medical, Series C, Acquisition Date: 11/10/16 - 9/27/17, Cost \$653 (1)(2)(3)	646,211	729
		1,781
Total Products & Devices		4,839

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>Services 0.3%</b>		
<b>Information &amp; Data Technology 0.0%</b>		
Doximity, Series C, Acquisition Date: 4/10/14, Cost \$219 (1)(2)(3)	45,378	226
		226
<b>Other Services 0.3%</b>		
Tempus Labs, Series D, Acquisition Date: 3/16/18, Cost \$533 (1)(2)(3)	56,856	919
Tempus Labs, Series E, Acquisition Date: 8/23/18, Cost \$629 (1)(2)(3)	37,551	629
		1,548
Total Services		1,774
<b>Total Convertible Preferred Stocks (Cost \$5,622)</b>		<b>6,613</b>

	Shares/Par	\$ Value
(Cost and value in \$000s)		
<b>CONVERTIBLE BONDS 0.1%</b>		
Ironwood Pharmaceuticals, 2.25%, 6/15/22	696,000	654
<b>Total Convertible Bonds (Cost \$763)</b>		<b>654</b>
<b>SHORT-TERM INVESTMENTS 0.8%</b>		
<b>Money Market Funds 0.8%</b>		
T. Rowe Price Government Reserve Fund, 2.45% (5)(6)	4,049,721	4,050
<b>Total Short-Term Investments (Cost \$4,050)</b>		<b>4,050</b>
<b>Total Investments in Securities</b>		
<b>100.0% of Net Assets (Cost \$382,795)</b>	<b>\$</b>	<b>530,360</b>

‡ Shares/Par are denominated in U.S. dollars unless otherwise notes.

(1) Non-income producing

(2) Level 3 in fair value hierarchy. See Note 2.

(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 \$9,378 and represents 1.8% of net assets.

(4) The identity of certain securities has been concealed to protect the fund while it completes a purchase or selling program for the securities.

(5) Seven-day yield

(6) Affiliated Companies

ADR American Depositary Receipts

CHF Swiss Franc

GBP British Pound

JPY Japanese Yen

**Affiliated Companies**

(\$000s)

The fund may invest in certain securities that are considered affiliated companies. As defined by the 1940 Act, an affiliated company is one in which the fund owns 5% or more of the outstanding voting securities, or a company that is under common ownership or control. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2018. Net realized gain (loss), investment income, change in net unrealized gain/loss, and purchase and sales cost reflect all activity for the period then ended.

<b>Affiliate</b>	<b>Net Realized Gain (Loss)</b>	<b>Change in Net Unrealized Gain/Loss</b>	<b>Investment Income</b>
T. Rowe Price Government Reserve Fund	\$ —#	\$ —	\$ 62+

**Supplementary Investment Schedule**

<b>Affiliate</b>	<b>Value 12/31/17</b>	<b>Purchase Cost</b>	<b>Sales Cost</b>	<b>Value 12/31/18</b>
T. Rowe Price Government Reserve Fund	\$ 4,062	□	□ \$	4,050^

# Capital gain distributions from mutual funds represented \$0 of the net realized gain (loss).

+ Investment income comprised \$62 of dividend income and \$0 of interest income.

□ Purchase and sale information not shown for cash management funds.

^ The cost basis of investments in affiliated companies was \$4,050.

The accompanying notes are an integral part of these financial statements.

December 31, 2018

**STATEMENT OF ASSETS AND LIABILITIES**

(\$000s, except shares and per share amounts)

**Assets**

Investments in securities, at value (cost \$382,795)	\$	530,360
Receivable for investment securities sold		539
Receivable for shares sold		237
Dividends and interest receivable		211
Other assets		91
Total assets		<u>531,438</u>

**Liabilities**

Investment management and administrative fees payable		571
Payable for shares redeemed		366
Payable for investment securities purchased		51
Total liabilities		<u>988</u>

**NET ASSETS****\$ 530,450****Net Assets Consist of:**

Accumulated undistributed net realized gain	\$	2,606
Net unrealized gain		147,561
Paid-in capital applicable to 13,629,614 shares of \$0.0001 par value capital stock outstanding; 1,000,000,000 shares of the Corporation authorized		<u>380,283</u>

**NET ASSETS****\$ 530,450****NET ASSET VALUE PER SHARE****Health Sciences Class**

(\$95,921,360 / 2,377,642 shares outstanding)

**\$ 40.34****Health Sciences – II Class**

(\$434,528,339 / 11,251,972 shares outstanding)

**\$ 38.62**

The accompanying notes are an integral part of these financial statements.



**STATEMENT OF OPERATIONS**

(\$000s)

	Year Ended 12/31/18
<b>Investment Income (Loss)</b>	
Income	
Dividend	\$ 5,675
Interest	18
Total income	5,693
Expenses	
Investment management and administrative expense	6,682
Rule 12b-1 fees – Health Sciences-II Class	1,519
Total expenses	8,201
Net investment loss	(2,508)
<b>Realized and Unrealized Gain / Loss</b>	
Net realized gain on securities	133,608
Change in net unrealized gain / loss	
Securities	(109,774)
Other assets and liabilities denominated in foreign currencies	(3)
Change in net unrealized gain / loss	(109,777)
Net realized and unrealized gain / loss	23,831
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 21,323</b>

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF CHANGES IN NET ASSETS**

(\$000s)

	Year Ended	
	12/31/18	12/31/17
<b>Increase (Decrease) in Net Assets</b>		
Operations		
Net investment loss	\$ (2,508)	\$ (2,505)
Net realized gain	133,608	33,913
Change in net unrealized gain / loss	(109,777)	118,328
Increase in net assets from operations	21,323	149,736
Distributions to shareholders		
Net realized gain		
Health Sciences Class	(5,576)	(3,723)
Health Sciences-II Class	(26,410)	(25,014)
Decrease in net assets from distributions	(31,986)	(28,737)
Capital share transactions *		
Shares sold		
Health Sciences Class	20,654	15,584
Health Sciences-II Class	99,589	89,228
Distributions reinvested		
Health Sciences Class	5,576	3,723
Health Sciences-II Class	26,410	25,014
Shares redeemed		
Health Sciences Class	(13,810)	(16,976)
Health Sciences-II Class	(289,399)	(109,006)
Increase (decrease) in net assets from capital share transactions	(150,980)	7,567
<b>Net Assets</b>		
Increase (decrease) during period	(161,643)	128,566
Beginning of period	692,093	563,527
<b>End of period</b>	<b>\$ 530,450</b>	<b>\$ 692,093</b>
Undistributed net investment income	-	-
*Share information		
Shares sold		
Health Sciences Class	446	384
Health Sciences-II Class	2,261	2,278
Distributions reinvested		
Health Sciences Class	137	88
Health Sciences-II Class	677	616
Shares redeemed		
Health Sciences Class	(304)	(426)
Health Sciences-II Class	(6,497)	(2,834)
Increase (decrease) in shares outstanding	(3,280)	106

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

T. Rowe Price Equity Series, Inc. (the corporation) is registered under the Investment Company Act of 1940 (the 1940 Act). The Health Sciences Portfolio (the fund) is a nondiversified, 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 long-term capital appreciation. The fund has two classes of shares: the Health Sciences Portfolio (Health Sciences Portfolio Class) and the Health Sciences Portfolio–II (Health Sciences Portfolio–II Class). Health Sciences 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. Certain ratios in the accompanying Financial Highlights have been included to conform to the current year presentation.

**Investment Transactions, Investment Income, and Distributions** Investment transactions are accounted for on the trade date basis. Income and expenses are recorded on the accrual basis. Realized gains and losses are reported on the identified cost basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Income tax-related interest and penalties, if incurred, are recorded as income tax expense. Dividends received from mutual fund investments are reflected as dividend income; capital gain distributions are reflected as realized gain/loss. Dividend income and capital gain distributions are recorded on the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date. Income distributions, if any, are declared and paid by each class annually. A capital gain distribution may also be declared and paid by the fund annually.

**Currency Translation** Assets, including investments, and liabilities denominated in foreign currencies are translated into U.S. dollar values each day at the prevailing exchange rate, using the mean of the bid and asked prices of such currencies against U.S. dollars as quoted by a major bank. Purchases and sales of securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rate on the respective date of such transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is not bifurcated from the portion attributable to changes in market prices.

**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. Health Sciences 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.

**In-Kind Redemptions** In accordance with guidelines described in the fund's prospectus, and when considered to be in the best interest of all shareholders, the fund may distribute portfolio securities rather than cash as payment for a redemption of fund shares (in-kind redemption). Gains and losses realized on in-kind redemptions are not recognized for tax purposes and are reclassified from undistributed realized gain (loss) to paid-in capital. During the year ended December 31, 2018, the fund realized \$98,534,000 of net gain on \$173,037,000 of in-kind redemptions.

**New Accounting Guidance** In March 2017, the FASB issued amended guidance to shorten the amortization period for certain callable debt securities held at a premium. The guidance is effective for fiscal years and interim periods beginning after December 15, 2018. Adoption will have no effect on the fund's net assets or results of operations.

**Indemnification** In the normal course of business, the fund may provide indemnification in connection with its officers and directors, service providers, and/or private company investments. The fund's maximum exposure under these arrangements is unknown; however, the risk of material loss is currently considered to be remote.

## NOTE 2 - VALUATION

The fund's financial instruments are valued and 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 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 and 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, 2018 (for further detail by category, please refer to the accompanying Portfolio of Investments):

(\$000s)	Level 1	Level 2	Level 3	Total Value
<b>Assets</b>				
Common Stocks	\$ 493,196	\$ 22,979	\$ 1,911	\$ 518,086
Preferred Stocks	-	957	-	957
Convertible Preferred Stocks	-	1,040	5,573	6,613
Convertible Bonds	-	654	-	654
Short-Term Investments	4,050	-	-	4,050
Total	\$ 497,246	\$ 25,630	\$ 7,484	\$ 530,360

There were no material transfers between Levels 1 and 2 during the year ended December 31, 2018.

Following is a reconciliation of the fund's Level 3 holdings for the year ended December 31, 2018. Gain (loss) reflects both realized and change in unrealized gain/loss on Level 3 holdings during the period, if any, and is included on the accompanying Statement of Operations. The change in unrealized gain/loss on Level 3 instruments held at December 31, 2018, totaled \$933,000 for the year ended December 31, 2018. 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 ended, transfers out of Level 3 were because observable market data became available for the security.

(\$000s)	Beginning Balance 1/1/18	Unrealized Gain (Loss) During Period	Total Purchases	Total Sales	Transfers Out of Level 3	Ending Balance 12/31/18
<b>Investments in Securities</b>						
Common Stocks	\$ 2,189	\$ 219	\$ 35	\$ (532)	\$ -	\$ 1,911
Convertible Preferred Stocks	2,633	827	2,354	-	(241)	5,573
Total Level 3	\$ 4,822	\$ 1,046	\$ 2,389	\$ (532)	\$ (241)	\$ 7,484

### NOTE 3 - DERIVATIVE INSTRUMENTS

During the year ended December 31, 2018, the fund invested in derivative instruments. As defined by GAAP, a derivative is a financial instrument whose value is derived from an underlying security price, foreign exchange rate, interest rate, index of prices or rates, or other variable; it requires little or no initial investment and permits or requires net settlement. The fund invests in derivatives only if the expected risks and rewards are consistent with its investment objectives, policies, and overall risk profile, as described in its prospectus and Statement of Additional Information. The fund may use derivatives for a variety of purposes, such as seeking to hedge against declines in principal value, increase yield, invest in an asset with greater efficiency and at a lower cost than is possible through direct investment, to enhance return, or to adjust credit exposure. The risks associated with the use of derivatives are different from, and potentially much greater than, the risks associated with investing directly in the instruments on which the derivatives are based. The fund at all times maintains sufficient cash reserves, liquid assets, or other SEC-permitted asset types to cover its settlement obligations under open derivative contracts.

The fund values its derivatives at fair value and recognizes changes in fair value currently in its results of operations. Accordingly, the fund does not follow hedge accounting, even for derivatives employed as economic hedges. Generally, the fund accounts for its derivatives on a gross basis. It does not offset the fair value of derivative liabilities against the fair value of derivative assets on its financial statements, nor does it offset the fair value of derivative instruments against the right to reclaim or obligation to return collateral. As of December 31, 2018, the fund held no derivative instruments.

Additionally, during the year ended December 31, 2018, the fund recognized \$86,000 of realized gain on Securities and a \$(51,000) change in unrealized gain/loss on Securities related to its investments in equity derivatives; such amounts are included on the accompanying Statement of Operations.

**Options** The fund is subject to equity price risk in the normal course of pursuing its investment objectives and uses options to help manage such risk. The fund may use options to manage exposure to security prices, interest rates, foreign currencies, and credit quality; as an efficient means of adjusting exposure to all or a part of a target market; to enhance income; as a cash management tool; or to adjust credit exposure. Options are included in net assets at fair value, options purchased are included in Investments in Securities, and Options written are separately reflected as a liability on the accompanying Statement of Assets and Liabilities. Premiums on unexercised, expired options are recorded as realized gains or losses; premiums on exercised options are recorded as an adjustment to the proceeds from the sale or cost of the purchase. The difference between the premium and the amount received or paid in a closing transaction is also treated as realized gain or loss. In return for a premium paid, call and put options give the holder the right, but not the obligation, to purchase or sell, respectively, a security at a specified exercise price. Risks related to the use of options include possible illiquidity of the options markets; trading restrictions imposed by an exchange or counterparty; movements in the underlying asset values and, for Options written, potential losses in excess of the fund's initial investment. During the year ended December 31, 2018, the volume of the fund's activity in options, based on underlying notional amounts, was generally less than 1% of net assets.

#### NOTE 4 - OTHER INVESTMENT TRANSACTIONS

Consistent with its investment objective, the fund engages in the following practices to manage exposure to certain risks and/or to enhance performance. The investment objective, policies, program, and risk factors of the fund are described more fully in the fund's prospectus and Statement of Additional Information.

**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 \$316,383,000 and \$500,895,000, respectively, for the year ended December 31, 2018.

#### NOTE 5 - FEDERAL INCOME TAXES

No provision for federal income taxes is required since the fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code and distribute to shareholders all of its taxable income and gains. Distributions determined in accordance with federal income tax regulations may differ in amount or character from net investment income and realized gains for financial reporting purposes. Financial reporting records are adjusted for permanent book/tax differences to reflect tax character but are not adjusted for temporary differences.

The fund files U.S. federal, state, and local tax returns as required. The fund's tax returns are subject to examination by the relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

Reclassifications to paid-in capital relate primarily to the current net operating loss and redemptions in kind. For the year ended December 31, 2018, 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	\$	2,508
Undistributed net realized gain		(99,426)
Paid-in-capital		96,918

Distributions during the years ended December 31, 2018 and December 31, 2017, were characterized for tax purposes as follows:

	December 31,	
	2018	2017
Ordinary income	\$ 965	\$ 7,172
Long-term capital gain	31,021	21,565
Total distributions	\$ 31,986	\$ 28,737

At December 31, 2018, the tax-basis cost of investments and components of net assets were as follows:

(\$000s)	
Cost of investments	\$ 386,295
Unrealized appreciation	\$ 164,359
Unrealized depreciation	(20,298)
Net unrealized appreciation (depreciation)	144,061
Undistributed long-term capital gain	6,106
Paid-in capital	380,283
Net assets	\$ 530,450

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.

## 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 0.95% of the fund's average daily net assets. The fee is computed daily and paid monthly. The all-inclusive fee covers investment management, shareholder servicing, transfer agency, accounting, and custody services provided to the fund, as well as fund directors' fees and expenses. Interest, taxes, brokerage commissions, and other non-recurring expenses permitted by the investment management agreement are paid directly by the fund. Effective July 1, 2018, T. Rowe Price has contractually agreed to waive a portion of the management fee it is entitled to receive from the fund in order to limit the fund's overall management fee rate to 0.94% of the fund's average daily net assets, through at least April 30, 2020. This contractual arrangement will renew automatically for one-year terms thereafter and may be terminated only with approval of the fund's Board. The fund has no obligation to repay fees reduced under this arrangement.

The fund may invest its cash reserves in certain open-end management investment companies managed by Price Associates and considered affiliates of the fund: the T. Rowe Price Government Reserve Fund or the T. Rowe Price Treasury Reserve Fund, organized as money market funds, or the T. Rowe Price Short-Term Fund, a short-term bond fund (collectively, the Price Reserve Funds). The Price Reserve Funds are offered as short-term investment options to mutual funds, trusts, and other accounts managed by Price Associates or its affiliates and are not available for direct purchase by members of the public. Cash collateral from securities lending is invested in the T. Rowe Price Short-Term Fund. The Price Reserve Funds pay no investment management fees.

The fund may participate in securities purchase and sale transactions with other funds or accounts advised by Price Associates (cross trades), in accordance with procedures adopted by the fund's Board and Securities and Exchange Commission rules, which require, among other things, that such purchase and sale cross trades be effected at the independent current market price of the security. During the year ended December 31, 2018, the 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 Equity Series, Inc. and  
Shareholders of T. Rowe Price Health Sciences Portfolio****Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of T. Rowe Price Health Sciences Portfolio (one of the portfolios constituting T. Rowe Price Equity Series, Inc., hereafter referred to as the “Fund”) as of December 31, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

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

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 7, 2019

We have served as the auditor of one or more investment companies in the T. Rowe Price group of investment companies since 1973.

## **TAX INFORMATION (UNAUDITED) FOR THE TAX YEAR ENDED 12/31/18**

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements.

The fund's distributions to shareholders included:

- \$918,000 from short-term capital gains,
- \$31,068,000 from long-term capital gains, subject to a long-term capital gains tax of not greater than 20%.

For taxable non-corporate shareholders, \$47,000 of the fund's income represents qualified dividend income subject to long-term capital gains tax rate of not greater than 20%.

For corporate shareholders, \$47,000 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**

Effective for reporting periods on or after March 1, 2019, the fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT. Prior to March 1, 2019, the fund filed a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-PORT and N-Q are available electronically on the SEC's website (sec.gov).

## ABOUT THE PORTFOLIO'S DIRECTORS AND OFFICERS

Your fund is overseen by a Board of Directors (Board) that meets regularly to review a wide variety of matters affecting or potentially affecting the fund, including performance, investment programs, compliance matters, advisory fees and expenses, service providers, and business and regulatory affairs. The Board elects the fund's officers, who are listed in the final table. At least 75% of the Board's members are independent of the Boards of T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates; "inside" or "interested" directors are employees or officers of T. Rowe Price. The business address of each director and officer is 100 East Pratt Street, Baltimore, Maryland 21202. The Statement of Additional Information includes additional information about the fund directors and is available without charge by calling a T. Rowe Price representative at 1-800-638-5660.

## INDEPENDENT DIRECTORS<sup>(a)</sup>

<b>Name (Year of Birth) Year Elected [Number of T. Rowe Price Portfolios Overseen]</b>	<b>Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies During the Past Five Years</b>
Teresa Bryce Bazemore <sup>(b)</sup> (1959) 2018 [189]	President, Radian Guaranty (2008 to 2017); Member, Bazemore Consulting LLC (2018 to present); Member, Chimera Investment Corporation (2017 to present); Member, Federal Home Loan Bank of Pittsburgh (2017 to present)
Ronald J. Daniels <sup>(b)</sup> (1959) 2018 [189]	President, The Johns Hopkins University <sup>(c)</sup> and Professor, Political Science Department, The Johns Hopkins University (2009 to present); Director, Lyndhurst Holdings (2015 to present)
Bruce W. Duncan (1951) 2013 [189]	Chief Executive Officer and Director (January 2009 to December 2016), Chairman of the Board (January 2016 to present), and President (January 2009 to September 2016), First Industrial Realty Trust, an owner and operator of industrial properties; Chairman of the Board (2005 to September 2016) and Director (1999 to September 2016), Starwood Hotels & Resorts, a hotel and leisure company; Director, Boston Properties (May 2016 to present); Director, Marriott International, Inc. (September 2016 to present)
Robert J. Gerrard, Jr. (1952) 2012 [189]	Advisory Board Member, Pipeline Crisis/Winning Strategies, a collaborative working to improve opportunities for young African Americans (1997 to present); Chairman of the Board, all funds (since July 2018)
Paul F. McBride (1956) 2013 [189]	Advisory Board Member, Vizzia Technologies (2015 to present); Board Member, Dunbar Armored (2012 to present)
Cecilia E. Rouse, Ph.D. (1963) 2012 [189]	Dean, Woodrow Wilson School (2012 to present); Professor and Researcher, Princeton University (1992 to present); Member of National Academy of Education (2010 to present); Director, MDRC, a nonprofit education and social policy research organization (2011 to present); Research Associate of Labor Studies Program at the National Bureau of Economic Research (2011 to 2015); Board Member of the National Bureau of Economic Research (2011 to present); Chair of Committee on the Status of Minority Groups in the Economic Profession of the American Economic Association (2012 to 2017); Vice President (2015 to 2016), American Economic Association
John G. Schreiber (1946) 2001 [189]	Owner/President, Centaur Capital Partners, Inc., a real estate investment company (1991 to present); 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); Director, Invitation Homes (2014 to present)
Mark R. Tercek (1957) 2009 [189]	President and Chief Executive Officer, The Nature Conservancy (2008 to present)

<sup>(a)</sup> All information about the independent directors was current as of December 31, 2017, except for the information provided for Ms. Bazemore and Mr. Daniels, which is current as of January 1, 2018.

<sup>(b)</sup> Effective January 1, 2018, Ms. Bazemore and Mr. Daniels were elected as independent directors of the Price Funds.

<sup>(c)</sup> William J. Stromberg, president and chief executive officer of T. Rowe Price Group, Inc., the parent company of the Price Funds' investment advisor, has served on the Board of Trustees of Johns Hopkins University since 2014 and is a member of the Johns Hopkins University Board's Compensation Committee.

**INSIDE DIRECTORS**

<b>Name (Year of Birth) Year Elected* [Number of T. Rowe Price Portfolios Overseen]</b>	<b>Principal Occupation(s) and Directorships of Public Companies and Other Investment Companies During the Past Five Years</b>
Edward C. Bernard** (1956) 2006 [0]	Director and Vice President, T. Rowe Price; Vice Chairman of the Board, Director, and Vice President, T. Rowe Price Group, Inc.; Chairman of the Board, Director, and Vice President, T. Rowe Price Investment Services, Inc., and T. Rowe Price Services, Inc.; Chairman of the Board and Director, T. Rowe Price Retirement Plan Services, Inc.; Chairman of the Board, Chief Executive Officer, Director, and President, T. Rowe Price International and T. Rowe Price Trust Company; Chairman of the Board, all funds (2006 to July 2018)
David Oestreicher (1967) 2018 [189]	Chief Legal Officer, Vice President, and Secretary, T. Rowe Price Group, Inc.; Director, Vice President, and Secretary, T. Rowe Price Investment Services, Inc., T. Rowe Price Retirement Plan Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; Vice President and Secretary, T. Rowe Price, T. Rowe Price Hong Kong, and T. Rowe Price International; Vice President, T. Rowe Price Japan and T. Rowe Price Singapore; Principal Executive Officer and Executive Vice President, all funds
Robert W. Sharps, CFA, CPA (1971) 2017 [135]	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company; President, Equity Series

\* Each inside director serves until retirement, resignation, or election of a successor.

\*\* Effective at the conclusion of a meeting of the Boards of the Price Funds held on July 25, 2018, Mr. Bernard resigned from his role as a director and chairman of the Boards of all the Price Funds.

**OFFICERS**

<b>Name (Year of Birth) Position Held With 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.
Gary J. Greb (1961) Vice President	Vice President, T. Rowe Price, T. Rowe Price International, and T. Rowe Price Trust Company
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
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
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, T. Rowe Price Group, Inc., and T. Rowe Price Trust Company
John F. Wakeman (1962) Vice President	Vice President, T. Rowe Price and T. Rowe Price Group, Inc.
Megan Warren (1968) Vice President	Vice President, T. Rowe Price, T. Rowe Price Group, Inc., T. Rowe Price Retirement Plan Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; formerly, Executive Director, JP Morgan Chase (to 2017)
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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*Call 1-800-225-5132 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.*