



# MFS<sup>®</sup> Conservative Allocation Portfolio

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MFS<sup>®</sup> Variable Insurance Trust III

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

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

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

# MFS® Conservative Allocation Portfolio

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

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

## LETTER FROM THE EXECUTIVE CHAIRMAN



Dear Contract Owners:

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

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

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

Respectfully,

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

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

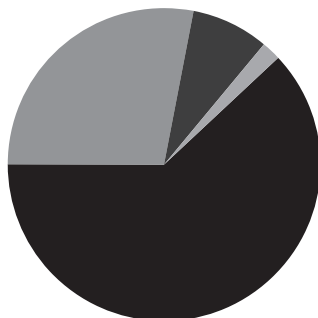
February 15, 2019

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

## PORTFOLIO COMPOSITION

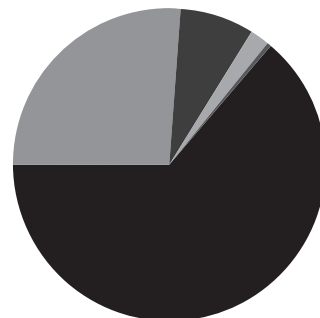
### Portfolio target allocation

- Bond Funds 62.0%
- U.S. Stock Funds 28.0%
- International Stock Funds 8.0%
- Specialty Funds 2.0%



### Portfolio actual allocation

- Bond Funds 63.7%
- U.S. Stock Funds 26.2%
- International Stock Funds 7.7%
- Specialty Funds 2.0%
- Cash & Cash Equivalents 0.4%



### Portfolio holdings

|                                       |       |
|---------------------------------------|-------|
| MFS Total Return Bond Series          | 17.5% |
| MFS Limited Maturity Portfolio        | 12.3% |
| MFS Government Securities Portfolio   | 10.4% |
| MFS Inflation-Adjusted Bond Portfolio | 10.2% |
| MFS Global Governments Portfolio      | 8.3%  |
| MFS Research Series                   | 5.7%  |
| MFS Value Series                      | 5.7%  |
| MFS Growth Series                     | 5.6%  |
| MFS High Yield Portfolio              | 5.0%  |
| MFS Research International Portfolio  | 3.8%  |
| MFS Mid Cap Growth Series             | 3.7%  |
| MFS Mid Cap Value Portfolio           | 3.7%  |
| MFS Global Real Estate Portfolio      | 2.0%  |
| MFS International Value Portfolio     | 2.0%  |
| MFS International Growth Portfolio    | 1.9%  |
| MFS New Discovery Value Portfolio     | 0.9%  |
| MFS New Discovery Series              | 0.9%  |
| Cash & Cash Equivalents               | 0.4%  |

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. MFS endeavors to fully invest all MFS funds-of-funds in underlying funds on a daily basis. Any divergence from 0.0% in Cash & Cash Equivalents is typically due to the timing of fund subscriptions/redemptions and the settlement of subsequent investment in/divestment from the underlying funds. While the MFS funds-of-funds' subscriptions/redemptions are processed at the same day NAV of the underlying funds, a positive/negative cash balance will be reflected on the MFS funds-of-funds' Statements of Assets and Liabilities until the trades with the underlying funds settle, which is typically two business days. Please see the Statements of Assets and Liabilities for additional information related to the fund's cash position and other assets and liabilities.

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

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

## MANAGEMENT REVIEW

### Summary of Results

For the twelve months ended December 31, 2018, Initial Class shares of the MFS Conservative Allocation Portfolio (“fund”) provided a total return of –2.73%, while Service Class shares of the fund provided a total return of –2.92%. These compare with a return of 0.01% for the fund’s benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. The fund’s other benchmark, the MFS Conservative Allocation Portfolio Blended Index (“Blended Index”), generated a return of –2.23%. The Blended Index reflects the blended returns of various equity and fixed income market indices, with percentage allocations to each index designed to resemble the allocations of the fund. The market indices and related percentage allocations used to compile the Blended Index are set forth in the Performance Summary.

### Market Environment

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

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

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

### Factors Affecting Performance

During the reporting period, the fund underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, largely due to its allocation to both the equity and real estate markets, which performed poorly during the year. Over the same period, the fund underperformed the Blended Index.

Relative to the Blended Index, the fund’s exposure to the fixed income asset class detracted from performance, led by its allocation to the MFS Inflation-Adjusted Bond Portfolio, where underperformance was driven by the fund’s global exposure in a strong US dollar environment. The fund’s investments in the MFS High Yield Portfolio also held back relative returns as credit spreads widened with the equity market sell-off towards the end of the year. Additionally, the fund’s allocation to the MFS Total Return Bond Series, particularly its exposure to corporate bonds, further held back relative results.

Within the U.S. equity asset class, the fund’s diversification down the market capitalization spectrum, to mid-cap funds and small-cap funds, detracted from relative performance as those segments of the market underperformed large-cap investments. This was partially offset by the fund’s positive performance in the MFS Growth Series, MFS Mid Cap Growth Series and MFS New Discovery Series.

On the positive side, the fund’s exposure to the international equity segment benefited relative performance as both the MFS International Growth Portfolio and MFS International Value Portfolio outperformed their respective benchmarks during the reporting period.

Respectfully,

Portfolio Manager(s)  
Joseph Flaherty and Natalie Shapiro

*Note to Shareholders: Effective September 1, 2018, Natalie Shapiro became a Portfolio Manager of the Fund.*

## MFS Conservative Allocation Portfolio

### *Management Review – continued*

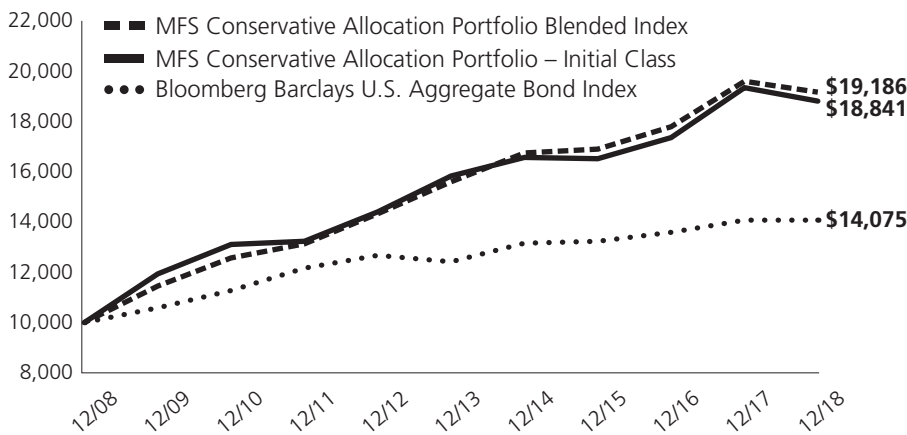
The views expressed in this report are those of the portfolio manager(s) only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or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

## PERFORMANCE SUMMARY THROUGH 12/31/18

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

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

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



### Total Returns through 12/31/18

#### Average annual total returns

| Share Class   | Class Inception Date | 1-yr    | 5-yr  | 10-yr |
|---------------|----------------------|---------|-------|-------|
| Initial Class | 10/01/08             | (2.73)% | 3.53% | 6.54% |
| Service Class | 10/01/08             | (2.92)% | 3.28% | 6.29% |

### Comparative benchmark(s)

|   |          |       |        |
|---|----------|-------|--------|
| Bloomberg Barclays U.S. Aggregate Bond Index (f)            | 0.01%    | 2.52% | 3.48%  |
| MFS Conservative Allocation Portfolio Blended Index (f) (w) | (2.23)%  | 4.21% | 6.73%  |
| FTSE EPRA/NAREIT Developed Real Estate Index (net div) (f)  | (5.63)%  | 4.34% | 9.65%  |
| MSCI EAFE Index (net div) (f)                               | (13.79)% | 0.53% | 6.32%  |
| Standard & Poor's 500 Stock Index (f)                       | (4.38)%  | 8.49% | 13.12% |

(f) Source: FactSet Research Systems Inc.

(w) As of December 31, 2018, the MFS Conservative Allocation Portfolio Blended Index was comprised of 62% Bloomberg Barclays U.S. Aggregate Bond Index, 28% Standard & Poor's 500 Stock Index, 8% MSCI EAFE Index (net div), and 2% FTSE EPRA/Nareit Developed Real Estate Index (net div).

### Benchmark Definition(s)

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

FTSE EPRA/NAREIT Developed Real Estate Index (net div) – measures the performance of eligible real estate equities worldwide that generate a majority of their revenue and income through the ownership, disposal and development of income-producing real estate.

## MFS Conservative Allocation Portfolio

### *Performance Summary – continued*

MSCI EAFE (Europe, Australasia, Far East) Index (net div) – a market capitalization index that is designed to measure equity market performance in the developed markets, excluding the U.S. and Canada.

Standard & Poor's 500 Stock Index – a market capitalization index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

It is not possible to invest directly in an index.

### **Notes to Performance Summary**

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

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

Performance prior to close of business December 7, 2012, reflects time periods when another adviser or subadviser was responsible for selecting investments for the fund under a different investment objective and different investment strategies, underlying fund selections, and underlying fund target weightings of the fund.

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

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



## EXPENSE TABLE

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

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

In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying funds in which the fund invests. Because the underlying funds have varied expenses and fee levels and the fund may own different proportions of the underlying funds at different times, the amount of fees and expenses incurred indirectly by the fund will vary. If these indirect costs were included, your costs would have been higher.

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

#### Actual Expenses

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

#### Hypothetical Example for Comparison Purposes

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

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

| Share Class   |                  | Annualized Expense Ratio | Beginning Account Value 7/01/18 | Ending Account Value 12/31/18 | Expenses Paid During Period (p) 7/01/18-12/31/18 |
|---------------|------------------|--------------------------|---------------------------------|-------------------------------|--|
| Initial Class | Actual           | 0.03%                    | \$1,000.00                      | \$966.90                      | \$0.15   |
|               | Hypothetical (h) | 0.03%                    | \$1,000.00                      | \$1,025.05                    | \$0.15   |
| Service Class | Actual           | 0.28%                    | \$1,000.00                      | \$966.60                      | \$1.39   |
|               | Hypothetical (h) | 0.28%                    | \$1,000.00                      | \$1,023.79                    | \$1.43   |

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

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

**PORTFOLIO OF INVESTMENTS – 12/31/18**

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

| Issuer  | Shares/Par | Value (\$)            |
|---|------------|-----------------------|
| <b>INVESTMENT COMPANIES (h) – 100.0%</b>              |            |                       |
| <b>Bond Funds – 63.7%</b>                             |            |                       |
| MFS Global Governments Portfolio – Initial Class      | 3,584,538  | \$ 37,064,117         |
| MFS Government Securities Portfolio – Initial Class   | 3,826,076  | 46,065,959            |
| MFS High Yield Portfolio – Initial Class              | 4,240,405  | 22,389,339            |
| MFS Inflation-Adjusted Bond Portfolio – Initial Class | 4,488,958  | 45,562,924            |
| MFS Limited Maturity Portfolio – Initial Class        | 5,415,633  | 54,697,894            |
| MFS Total Return Bond Series – Initial Class          | 6,157,866  | 77,896,999            |
|   |            | <u>\$ 283,677,232</u> |
| <b>International Stock Funds – 7.7%</b>               |            |                       |
| MFS International Growth Portfolio – Initial Class    | 677,386    | \$ 8,656,994          |
| MFS International Value Portfolio – Initial Class     | 348,059    | 8,708,429             |
| MFS Research International Portfolio – Initial Class  | 1,202,822  | 16,923,707            |
|   |            | <u>\$ 34,289,130</u>  |
| <b>Specialty Funds – 2.0%</b>                         |            |                       |
| MFS Global Real Estate Portfolio – Initial Class      | 669,780    | \$ 8,774,121          |

| Issuer   | Shares/Par | Value (\$)                  |
|--|------------|-----------------------------|
| <b>INVESTMENT COMPANIES (h) – continued</b>                        |            |                             |
| <b>U.S. Stock Funds – 26.2%</b>                                    |            |                             |
| MFS Growth Series – Initial Class                                  | 531,410    | \$ 24,981,612               |
| MFS Mid Cap Growth Series – Initial Class                          | 2,020,738  | 16,630,678                  |
| MFS Mid Cap Value Portfolio – Initial Class                        | 2,239,666  | 16,618,320                  |
| MFS New Discovery Series – Initial Class                           | 230,434    | 4,023,375                   |
| MFS New Discovery Value Portfolio – Initial Class                  | 482,079    | 4,073,567                   |
| MFS Research Series – Initial Class                                | 1,011,237  | 25,210,129                  |
| MFS Value Series – Initial Class                                   | 1,455,563  | 25,181,234                  |
|  |            | <u>\$ 116,718,915</u>       |
| <b>Money Market Funds – 0.4%</b>                                   |            |                             |
| MFS Institutional Money Market Portfolio, 2.4% (v)                 | 1,647,127  | \$ 1,646,963                |
| <b>Total Investment Companies (Identified Cost, \$432,342,282)</b> |            | <b><u>\$445,106,361</u></b> |
| OTHER ASSETS, LESS   |            |                             |
| LIABILITIES – 0.0%   |            | (56,423)                    |
| <b>NET ASSETS – 100.0%</b>   |            | <b><u>\$445,049,938</u></b> |

(h) An affiliated issuer, which may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. At period end, the aggregate value of the fund's investments in affiliated issuers was \$445,106,361.

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

**See Notes to Financial Statements**

## FINANCIAL STATEMENTS | STATEMENT OF ASSETS AND LIABILITIES

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

At 12/31/18

| <b>Assets</b>  |                      |
|--|----------------------|
| Investments in affiliated issuers, at value (identified cost, \$432,342,282) | \$445,106,361        |
| Receivables for  |                      |
| Investments sold   | 395,240              |
| Fund shares sold   | 420                  |
| Other assets   | 2,968                |
| <b>Total assets</b>  | <b>\$445,504,989</b> |
| <b>Liabilities</b>   |                      |
| Payables for   |                      |
| Fund shares reacquired   | \$395,659            |
| Payable to affiliates  |                      |
| Administrator  | 192                  |
| Shareholder servicing costs  | 73                   |
| Distribution and/or service fees   | 12,093               |
| Payable for independent Trustees' compensation                               | 4                    |
| Accrued expenses and other liabilities                                       | 47,030               |
| <b>Total liabilities</b>   | <b>\$455,051</b>     |
| <b>Net assets</b>  | <b>\$445,049,938</b> |
| <b>Net assets consist of</b>   |                      |
| Paid-in capital  | \$402,882,582        |
| Total distributable earnings (loss)  | 42,167,356           |
| <b>Net assets</b>  | <b>\$445,049,938</b> |
| Shares of beneficial interest outstanding                                    | 41,957,124           |

|               | <b>Net assets</b> | <b>Shares outstanding</b> | <b>Net asset value per share</b> |
|---------------|-------------------|---------------------------|----------------------------------|
| Initial Class | \$2,062,182       | 194,899                   | \$10.58                          |
| Service Class | 442,987,756       | 41,762,225                | 10.61                            |

See Notes to Financial Statements

**FINANCIAL STATEMENTS | STATEMENT OF OPERATIONS**

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

**Year ended 12/31/18****Net investment income (loss)**

|                                    |              |
|------------------------------------|--------------|
| Income                             |              |
| Dividends from affiliated issuers  | \$11,899,501 |
| Expenses                           |              |
| Distribution and/or service fees   | \$1,271,633  |
| Shareholder servicing costs        | 8,872        |
| Administrative services fee        | 17,500       |
| Independent Trustees' compensation | 12,255       |
| Custodian fee                      | 8,879        |
| Shareholder communications         | 20,065       |
| Audit and tax fees                 | 38,920       |
| Legal fees                         | 4,372        |
| Miscellaneous                      | 24,741       |
| Total expenses                     | \$1,407,237  |
| Net investment income (loss)       | \$10,492,264 |

**Realized and unrealized gain (loss)**

|   |                |
|---|----------------|
| Realized gain (loss) (identified cost basis)                |                |
| Investments in affiliated issuers                           | \$8,812,385    |
| Capital gain distributions from underlying affiliated funds | 12,600,204     |
| Net realized gain (loss)                                    | \$21,412,589   |
| Change in unrealized appreciation or depreciation           |                |
| Affiliated issuers  | \$(45,032,933) |
| Net realized and unrealized gain (loss)                     | \$(23,620,344) |
| Change in net assets from operations                        | \$(13,128,080) |

**See Notes to Financial Statements**

## FINANCIAL STATEMENTS | STATEMENTS OF CHANGES IN NET ASSETS

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

|   | Year ended      |                |
|---|-----------------|----------------|
|   | 12/31/18        | 12/31/17       |
| <b>Change in net assets</b>                       |                 |                |
| <b>From operations</b>                            |                 |                |
| Net investment income (loss)                      | \$10,492,264    | \$9,682,222    |
| Net realized gain (loss)                          | 21,412,589      | 20,657,881     |
| Net unrealized gain (loss)                        | (45,032,933)    | 32,920,622     |
| Change in net assets from operations              | \$(13,128,080)  | \$63,260,725   |
| Total distributions to shareholders (a)           | \$(30,510,928)  | \$(26,766,992) |
| Change in net assets from fund share transactions | \$(66,228,101)  | \$(96,807,155) |
| Total change in net assets                        | \$(109,867,109) | \$(60,313,422) |
| <b>Net assets</b>                                 |                 |                |
| At beginning of period                            | 554,917,047     | 615,230,469    |
| At end of period (b)                              | \$445,049,938   | \$554,917,047  |

(a) Distributions from net investment income and from net realized gain are no longer required to be separately disclosed. See Note 2. For the year ended December 31, 2017, distributions from net investment income and from net realized gain were \$10,989,398 and \$15,777,594, respectively.

(b) Parenthetical disclosure of undistributed net investment income is no longer required. See Note 2. For the year ended December 31, 2017, end of period net assets included undistributed net investment income of \$9,681,018.

### See Notes to Financial Statements

**FINANCIAL STATEMENTS | FINANCIAL HIGHLIGHTS**

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

| Initial Class  | Year ended |          |           |          |          |
|--|------------|----------|-----------|----------|----------|
|  | 12/31/18   | 12/31/17 | 12/31/16  | 12/31/15 | 12/31/14 |
| Net asset value, beginning of period                             | \$11.61    | \$10.95  | \$11.09   | \$11.79  | \$11.61  |
| <b>Income (loss) from investment operations</b>                  |            |          |           |          |          |
| Net investment income (loss) (d)(l)                              | \$0.27     | \$0.22   | \$0.22(c) | \$0.24   | \$0.20   |
| Net realized and unrealized gain (loss)                          | (0.55)     | 1.02     | 0.36      | (0.27)   | 0.34     |
| Total from investment operations                                 | \$(0.28)   | \$1.24   | \$0.58    | \$(0.03) | \$0.54   |
| <b>Less distributions declared to shareholders</b>               |            |          |           |          |          |
| From net investment income                                       | \$(0.26)   | \$(0.26) | \$(0.32)  | \$(0.41) | \$(0.22) |
| From net realized gain   | (0.49)     | (0.32)   | (0.40)    | (0.26)   | (0.14)   |
| Total distributions declared to shareholders                     | \$(0.75)   | \$(0.58) | \$(0.72)  | \$(0.67) | \$(0.36) |
| Net asset value, end of period (x)                               | \$10.58    | \$11.61  | \$10.95   | \$11.09  | \$11.79  |
| Total return (%) (k)(r)(s)(x)                                    | (2.73)     | 11.48    | 5.03(c)   | (0.19)   | 4.61     |
| <b>Ratios (%) (to average net assets) and Supplemental data:</b> |            |          |           |          |          |
| Expenses before expense reductions (f)(h)                        | 0.03       | 0.02     | 0.02(c)   | 0.01     | 0.02     |
| Expenses after expense reductions (f)(h)                         | N/A        | N/A      | N/A       | N/A      | 0.02     |
| Net investment income (loss) (l)                                 | 2.34       | 1.94     | 1.92(c)   | 2.06     | 1.66     |
| Portfolio turnover   | 1          | 0(b)     | 1         | 2        | 1        |
| Net assets at end of period (000 omitted)                        | \$2,062    | \$2,338  | \$2,266   | \$2,419  | \$2,948  |

| Service Class  | Year ended |           |           |           |           |
|--|------------|-----------|-----------|-----------|-----------|
|  | 12/31/18   | 12/31/17  | 12/31/16  | 12/31/15  | 12/31/14  |
| Net asset value, beginning of period                             | \$11.63    | \$10.96   | \$11.10   | \$11.80   | \$11.61   |
| <b>Income (loss) from investment operations</b>                  |            |           |           |           |           |
| Net investment income (loss) (d)(l)                              | \$0.23     | \$0.19    | \$0.19(c) | \$0.21    | \$0.16    |
| Net realized and unrealized gain (loss)                          | (0.53)     | 1.02      | 0.35      | (0.28)    | 0.36      |
| Total from investment operations                                 | \$(0.30)   | \$1.21    | \$0.54    | \$(0.07)  | \$0.52    |
| <b>Less distributions declared to shareholders</b>               |            |           |           |           |           |
| From net investment income                                       | \$(0.23)   | \$(0.22)  | \$(0.28)  | \$(0.37)  | \$(0.19)  |
| From net realized gain   | (0.49)     | (0.32)    | (0.40)    | (0.26)    | (0.14)    |
| Total distributions declared to shareholders                     | \$(0.72)   | \$(0.54)  | \$(0.68)  | \$(0.63)  | \$(0.33)  |
| Net asset value, end of period (x)                               | \$10.61    | \$11.63   | \$10.96   | \$11.10   | \$11.80   |
| Total return (%) (k)(r)(s)(x)                                    | (2.92)     | 11.24     | 4.73(c)   | (0.49)    | 4.41      |
| <b>Ratios (%) (to average net assets) and Supplemental data:</b> |            |           |           |           |           |
| Expenses before expense reductions (f)(h)                        | 0.28       | 0.27      | 0.27(c)   | 0.26      | 0.27      |
| Expenses after expense reductions (f)(h)                         | N/A        | N/A       | N/A       | N/A       | 0.27      |
| Net investment income (loss) (l)                                 | 2.05       | 1.63      | 1.66(c)   | 1.80      | 1.36      |
| Portfolio turnover   | 1          | 0(b)      | 1         | 2         | 1         |
| Net assets at end of period (000 omitted)                        | \$442,988  | \$552,579 | \$612,965 | \$691,195 | \$801,775 |

**See Notes to Financial Statements**

*Financial Highlights – continued*

- (b) Less than 0.5%.
- (c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher.
- (d) Per share data is based on average shares outstanding.
- (f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
- (h) In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying affiliated funds in which the fund invests. Accordingly, the expense ratio for the fund reflects only those fees and expenses borne directly by the fund. Because the underlying affiliated funds have varied expense and fee levels and the fund may own different proportions of the underlying affiliated funds at different times, the amount of fees and expenses incurred indirectly by the fund will vary.
- (k) The total return does not reflect expenses that apply to separate accounts. Inclusion of these charges would reduce the total return figures for all periods shown.
- (l) The ratios and per share amounts do not include net investment income of the underlying affiliated funds in which the fund invests.
- (r) Certain expenses have been reduced without which performance would have been lower.
- (s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
- (x) The net asset values and total returns have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

**See Notes to Financial Statements**

## NOTES TO FINANCIAL STATEMENTS

### (1) Business and Organization

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

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

### (2) Significant Accounting Policies

**General** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund's Statement of Assets and Liabilities through the date that the financial statements were issued.

The fund is a "fund of funds", which invests the majority of its assets in other MFS mutual funds (hereafter referred to as "underlying affiliated funds" or "underlying funds"), which may have different fiscal year ends than the funds. The underlying funds, in turn, may engage in a number of investment techniques and practices, which involve certain risks. Certain underlying funds invest their portfolio in high-yield securities rated below investment grade. Investments in below investment grade quality securities can involve a substantially greater risk of default or can already be in default, and their values can decline significantly. Below investment grade quality securities tend to be more sensitive to adverse news about the issuer, or the market or economy in general, than higher quality debt instruments. Certain underlying funds invest a significant portion of their assets in asset-backed and/or mortgage-backed securities. For these securities, the value of the debt instrument also depends on the credit quality and adequacy of the underlying assets or collateral as well as whether there is a security interest in the underlying assets or collateral. Enforcing rights, if any, against the underlying assets or collateral may be difficult. U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae. Certain underlying funds invest in foreign securities, including securities of emerging market issuers. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country's market, economic, industrial, political, regulatory, geopolitical, and other conditions. Investments in emerging markets can involve additional and greater risks than the risks associated with investments in developed foreign markets. Emerging markets can have less developed markets, greater custody and operational risk, less developed legal, regulatory, and accounting systems, and greater political, social, and economic instability than developed markets.

The accounting policies of the underlying funds in which the fund invests are outlined in the underlying funds' shareholder reports, which are available without charge by calling 1-800-225-2606, at mfs.com and on the Securities and Exchange Commission (SEC) web site at <http://www.sec.gov>. The underlying funds' shareholder reports are not covered by this report.

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

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

**Investment Valuations** – Open-end investment companies (underlying funds) are generally valued at their net asset value per share. The investments of underlying funds managed by the adviser are valued as described below. For purposes of this policy disclosure, "fund" also refers to the underlying funds in which the fund-of-funds invests.



*Notes to Financial Statements – continued*

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

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

Various inputs are used in determining the value of the fund's assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. The following is a summary of the levels used as of December 31, 2018 in valuing the fund's assets or liabilities:

| <b>Financial Instruments</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|------------------------------|----------------|----------------|----------------|---------------|
| Mutual Funds                 | \$445,106,361  | \$—            | \$—            | \$445,106,361 |

For further information regarding security characteristics, see the Portfolio of Investments. Please refer to the underlying funds' shareholder reports for further information regarding the levels used in valuing the underlying funds' assets or liabilities.

**Derivatives** – The fund does not invest in derivatives directly. The fund does invest in underlying funds that may use derivatives primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the underlying funds use derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative's original cost.

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

**Investment Transactions and Income** – Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. Distributions of income and capital gains from the underlying funds are recorded on the ex-dividend date. Recognition of net investment income by the fund is affected by the timing of the declaration of distributions by the underlying funds in which the fund invests. In determining the net gain or loss on securities sold, the cost of securities is determined on the identified cost basis.

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

**Tax Matters and Distributions** – The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund's federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund's tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability.

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

Book/tax differences primarily relate to wash sale loss deferrals.

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

|  | Year ended<br>12/31/18 | Year ended<br>12/31/17 |
|--|------------------------|------------------------|
| Ordinary income (including any short-term capital gains) | \$10,086,518           | \$11,663,511           |
| Long-term capital gains                                  | 20,424,410             | 15,103,481             |
| Total distributions                                      | \$30,510,928           | \$26,766,992           |

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

| <b>As of 12/31/18</b>                      |               |
|--|---------------|
| Cost of investments                        | \$435,291,858 |
| Gross appreciation                         | 25,982,380    |
| Gross depreciation                         | (16,167,877)  |
| Net unrealized appreciation (depreciation) | \$9,814,503   |
| Undistributed ordinary income              | 10,552,629    |
| Undistributed long-term capital gain       | 21,800,224    |

Notes to Financial Statements – continued

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

|               | From net investment<br>income |                        | From net realized<br>gain |                        |
|---------------|-------------------------------|------------------------|---------------------------|------------------------|
|               | Year ended<br>12/31/18        | Year ended<br>12/31/17 | Year ended<br>12/31/18    | Year ended<br>12/31/17 |
| Initial Class | \$49,715                      | \$49,416               | \$92,819                  | \$61,677               |
| Service Class | 9,632,519                     | 10,939,982             | 20,735,875                | 15,715,917             |
| Total         | \$9,682,234                   | \$10,989,398           | \$20,828,694              | \$15,777,594           |

### (3) Transactions with Affiliates

**Investment Adviser** – The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. MFS receives no compensation under this agreement; however MFS receives management fees from the underlying MFS funds.

The investment adviser has agreed in writing to pay a portion of the fund’s operating expenses, excluding distribution and/or service fees, interest, taxes, extraordinary expenses, brokerage and transaction costs, and investment-related expenses such as fees and expenses associated with investments in investment companies and other similar investment vehicles such that fund operating expenses do not exceed 0.20% annually of the fund’s average daily net assets. This written agreement will continue until modified by the fund’s Board of Trustees, but such agreement will continue at least until April 30, 2020. For the year ended December 31, 2018, the fund’s actual operating expenses did not exceed the limit and therefore, the investment adviser did not pay any portion of the fund’s expenses related to this agreement.

In addition to the fees and expenses which the fund bears directly, the fund indirectly bears a pro rata share of the fees and expenses of the underlying funds in which the fund invests. Accordingly, the expense ratio for the fund reflects only those fees and expenses borne directly by the fund.

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

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

**Shareholder Servicing Agent** – MFS Service Center, Inc. (MFSC), a wholly-owned subsidiary of MFS, receives a fee from the fund for its services as shareholder servicing agent. For the year ended December 31, 2018, the fee was \$8,761, which equated to 0.0017% annually of the fund’s average daily net assets. MFSC also receives payment from the fund for out-of-pocket expenses paid by MFSC on behalf of the fund. For the year ended December 31, 2018, these costs amounted to \$111.

**Administrator** – MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund pays an annual fixed amount of \$17,500. The administrative services fee incurred for the year ended December 31, 2018 was equivalent to an annual effective rate of 0.0034% of the fund’s average daily net assets.

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

**Other** – This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended December 31, 2018, the fee paid by the fund under this agreement was \$872 and is included in “Miscellaneous”

## MFS Conservative Allocation Portfolio

Notes to Financial Statements – continued

expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

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

### (4) Portfolio Securities

For the year ended December 31, 2018, purchases and sales of shares of underlying funds aggregated \$3,148,037 and \$101,283,562, respectively.

### (5) Shares of Beneficial Interest

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

|  | Year ended 12/31/18 |                 | Year ended 12/31/17 |                 |
|--|---------------------|-----------------|---------------------|-----------------|
|  | Shares              | Amount          | Shares              | Amount          |
| Shares sold  |                     |                 |                     |                 |
| Initial Class  | 4,750               | \$54,877        | 10,169              | \$115,023       |
| Service Class  | 368,488             | 4,244,692       | 423,197             | 4,768,408       |
|  | 373,238             | \$4,299,569     | 433,366             | \$4,883,431     |
| Shares issued to shareholders in reinvestment of distributions |                     |                 |                     |                 |
| Initial Class  | 12,760              | \$142,534       | 9,901               | \$111,093       |
| Service Class  | 2,709,045           | 30,368,394      | 2,369,413           | 26,655,899      |
|  | 2,721,805           | \$30,510,928    | 2,379,314           | \$26,766,992    |
| Shares reacquired  |                     |                 |                     |                 |
| Initial Class  | (24,024)            | \$(272,696)     | (25,609)            | \$(286,704)     |
| Service Class  | (8,825,257)         | (100,765,902)   | (11,197,619)        | (128,170,874)   |
|  | (8,849,281)         | \$(101,038,598) | (11,223,228)        | \$(128,457,578) |
| Net change   |                     |                 |                     |                 |
| Initial Class  | (6,514)             | \$(75,285)      | (5,539)             | \$(60,588)      |
| Service Class  | (5,747,724)         | (66,152,816)    | (8,405,009)         | (96,746,567)    |
|  | (5,754,238)         | \$(66,228,101)  | (8,410,548)         | \$(96,807,155)  |

### (6) Line of Credit

The fund and certain other funds managed by MFS participate in a \$1.25 billion unsecured committed line of credit, subject to a \$1 billion sublimit, provided by a syndication of banks under a credit agreement. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, generally at a rate equal to the higher of the Overnight Bank Funding rate or daily one month LIBOR plus an agreed upon spread. A commitment fee, based on the average daily, unused portion of the committed line of credit, is allocated among the participating funds. In addition, the fund and other funds managed by MFS have established unsecured uncommitted borrowing arrangements with certain banks for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Overnight Bank Funding rate plus an agreed upon spread. For the year ended December 31, 2018, the fund's commitment fee and interest expense were \$2,961 and \$0, respectively, and are included in "Miscellaneous" expense in the Statement of Operations.

Notes to Financial Statements – continued

**(7) Investments in Affiliated Issuers**

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

| <b>Affiliated Issuers</b>                | <b>Beginning<br/>Shares/Par<br/>Amount</b> | <b>Acquisitions<br/>Shares/Par<br/>Amount</b> | <b>Dispositions<br/>Shares/Par<br/>Amount</b> | <b>Ending<br/>Shares/Par<br/>Amount</b> |
|--|--|---|---|---|
| MFS Global Governments Portfolio         | 4,199,849                                  | 42,201  | (657,512)                                     | 3,584,538                               |
| MFS Global Real Estate Portfolio         | 776,900                                    | 48,648  | (155,768)                                     | 669,780                                 |
| MFS Government Securities Portfolio      | 4,473,015                                  | 163,522                                       | (810,461)                                     | 3,826,076                               |
| MFS Growth Series                        | 675,751                                    | 45,156  | (189,497)                                     | 531,410                                 |
| MFS High Yield Portfolio                 | 4,796,242                                  | 265,090                                       | (820,927)                                     | 4,240,405                               |
| MFS Inflation-Adjusted Bond Portfolio    | 5,136,227                                  | 90,519  | (737,788)                                     | 4,488,958                               |
| MFS Institutional Money Market Portfolio | 1,624,261                                  | 2,118,951                                     | (2,096,085)                                   | 1,647,127                               |
| MFS International Growth Portfolio       | 716,142                                    | 72,185  | (110,941)                                     | 677,386                                 |
| MFS International Value Portfolio        | 392,455                                    | 10,392  | (54,788)                                      | 348,059                                 |
| MFS Limited Maturity Portfolio           | 6,520,227                                  | 140,388                                       | (1,244,982)                                   | 5,415,633                               |
| MFS Mid Cap Growth Series                | 2,318,834                                  | 324,816                                       | (622,912)                                     | 2,020,738                               |
| MFS Mid Cap Value Portfolio              | 2,446,894                                  | 173,547                                       | (380,775)                                     | 2,239,666                               |
| MFS New Discovery Series                 | 274,606                                    | 31,769  | (75,941)                                      | 230,434                                 |
| MFS New Discovery Value Portfolio        | 496,034                                    | 77,464  | (91,419)                                      | 482,079                                 |
| MFS Research International Portfolio     | 1,301,754                                  | 61,206  | (160,138)                                     | 1,202,822                               |
| MFS Research Series                      | 1,120,543                                  | 132,531                                       | (241,837)                                     | 1,011,237                               |
| MFS Total Return Bond Series             | 7,126,269                                  | 255,728                                       | (1,224,131)                                   | 6,157,866                               |
| MFS Value Series                         | 1,581,540                                  | 139,374                                       | (265,351)                                     | 1,455,563                               |

| <b>Affiliated Issuers</b>                | <b>Realized<br/>Gain (Loss)</b> | <b>Change in<br/>Unrealized<br/>Appreciation/<br/>Depreciation</b> | <b>Capital Gain<br/>Distributions</b> | <b>Dividend<br/>Income</b> | <b>Ending<br/>Value</b> |
|--|---------------------------------|--|---------------------------------------|----------------------------|-------------------------|
| MFS Global Governments Portfolio         | \$(484,368)                     | \$(408,442)  | \$—                                   | \$398,192                  | \$37,064,117            |
| MFS Global Real Estate Portfolio         | 216,796                         | (1,014,113)  | 66,385                                | 476,079                    | 8,774,121               |
| MFS Government Securities Portfolio      | (1,212,908)                     | (355,512)  | —                                     | 1,648,579                  | 46,065,959              |
| MFS Growth Series                        | 4,434,485                       | (4,601,673)  | 1,792,509                             | 144,022                    | 24,981,612              |
| MFS High Yield Portfolio                 | (406,299)                       | (1,735,171)  | —                                     | 1,412,186                  | 22,389,339              |
| MFS Inflation-Adjusted Bond Portfolio    | (55,142)                        | (3,106,938)  | —                                     | 862,004                    | 45,562,924              |
| MFS Institutional Money Market Portfolio | (73)                            | 12   | —                                     | 30,840                     | 1,646,963               |
| MFS International Growth Portfolio       | 396,496                         | (2,158,041)  | 804,587                               | 147,143                    | 8,656,994               |
| MFS International Value Portfolio        | 534,681                         | (1,640,544)  | 109,616                               | 108,858                    | 8,708,429               |
| MFS Limited Maturity Portfolio           | (142,155)                       | (351,066)  | —                                     | 1,231,854                  | 54,697,894              |
| MFS Mid Cap Growth Series                | 2,330,335                       | (4,407,235)  | 2,843,009                             | 100,928                    | 16,630,678              |
| MFS Mid Cap Value Portfolio              | 309,916                         | (3,789,538)  | 1,033,886                             | 383,572                    | 16,618,320              |
| MFS New Discovery Series                 | 383,242                         | (870,171)  | 451,775                               | 152,446                    | 4,023,375               |
| MFS New Discovery Value Portfolio        | 187,915                         | (1,392,402)  | 590,618                               | 160,979                    | 4,073,567               |
| MFS Research International Portfolio     | 508,872                         | (4,023,995)  | 259,738                               | 529,954                    | 16,923,707              |
| MFS Research Series                      | 1,841,899                       | (6,075,219)  | 2,762,163                             | 771,886                    | 25,210,129              |
| MFS Total Return Bond Series             | (1,157,744)                     | (2,787,680)  | —                                     | 2,789,023                  | 77,896,999              |
| MFS Value Series                         | 1,126,437                       | (6,315,205)  | 1,885,918                             | 550,956                    | 25,181,234              |
|  | <b>\$8,812,385</b>              | <b>\$(45,032,933)</b>  | <b>\$12,600,204</b>                   | <b>\$11,899,501</b>        | <b>\$445,106,361</b>    |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of MFS Variable Insurance Trust III and the Shareholders of MFS Conservative Allocation Portfolio:

### Opinion on the Financial Statements and Financial Highlights

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

### Basis for Opinion

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the transfer agent. We believe that our audits provide a reasonable basis for our opinion.

DELOITTE & TOUCHE LLP

Boston, Massachusetts  
February 15, 2019

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

## TRUSTEES AND OFFICERS – IDENTIFICATION AND BACKGROUND

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

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

## MFS Conservative Allocation Portfolio

Trustees and Officers – continued

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

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



## Trustees and Officers – continued

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

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

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

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

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

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

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

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

**Investment Adviser**

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

**Distributor**

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

**Portfolio Manager(s)**

Joseph Flaherty  
Natalie Shapiro

**Custodian**

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

**Independent Registered Public Accounting Firm**

Deloitte & Touche LLP  
200 Berkeley Street  
Boston, MA 02116

## BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

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

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

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

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

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

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

The Trustees considered that MFS does not charge an advisory fee for providing investment advisory services to the Fund, but that the Fund pays its pro rata share of the advisory fees paid by the underlying funds in which it invests (the “Underlying Funds”).

*Board Review of Investment Advisory Agreement – continued*

In assessing the reasonableness of the Fund's expenses, the Trustees considered, among other information, the Fund's total expense ratio of the Fund's Initial Class shares as a percentage of average daily net assets and the total expense ratios of peer groups of funds based on information provided by Broadridge. The Trustees considered that MFS currently observes an expense limitation for the Fund, which may not be changed without the Trustees' approval. The Trustees also considered that, according to the data provided by Broadridge (which takes into account any expense limitations that were in effect during the Fund's last fiscal year), the Fund's total expense ratio was approximately at the Broadridge expense group median. Because the Fund does not pay an advisory fee, the Trustees did not consider the extent to which economies of scale would be realized due to the Fund's growth of assets, whether fee levels reflect economies of scale for shareholders, or the fees paid by similar funds to other investment advisers or by similar clients of MFS.

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

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

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

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

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

## PROXY VOTING POLICIES AND INFORMATION

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

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

## QUARTERLY PORTFOLIO DISCLOSURE

The fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov>. A shareholder can obtain the portfolio holdings report for the first and third quarters of the fund's fiscal year at [mfs.com/vit3](http://mfs.com/vit3) by choosing the fund's name and then selecting the "Resources" tab and clicking on "Prospectus and Reports".

## FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site ([mfs.com](http://mfs.com)). This information is available at <https://www.mfs.com/en-us/what-we-do/announcements.html> or at [mfs.com/vit3](http://mfs.com/vit3) by choosing the fund's name.

## INFORMATION ABOUT FUND CONTRACTS AND LEGAL CLAIMS

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

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

## FEDERAL TAX INFORMATION (unaudited)

The following information is provided pursuant to provisions of the Internal Revenue Code.

The fund designates \$22,467,000 as capital gain dividends paid during the fiscal year.

For corporate shareholders, 12.74% of the ordinary income dividends paid during the fiscal year qualify for the corporate dividends received deduction.

# FACTS

## WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?



### Why?

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

### What?

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

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

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

### How?

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

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

### Questions?

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

## Who we are

|                                      |   |
|--------------------------------------|---|
| <b>Who is providing this notice?</b> | MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., and MFS Heritage Trust Company. |
|--------------------------------------|---|

## What we do

|  |  |
|--|--|
| <b>How does MFS protect my personal information?</b> | To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.  |
| <b>How does MFS collect my personal information?</b> | <p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>• open an account or provide account information</li> <li>• direct us to buy securities or direct us to sell your securities</li> <li>• make a wire transfer</li> </ul> <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.</p>                    |
| <b>Why can't I limit all sharing?</b>                | <p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>• sharing for affiliates' everyday business purposes – information about your creditworthiness</li> <li>• affiliates from using your information to market to you</li> <li>• sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p> |

## Definitions

|                        |   |
|------------------------|---|
| <b>Affiliates</b>      | <p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>• <i>MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.</i></li> </ul> |
| <b>Nonaffiliates</b>   | <p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>• <i>MFS does not share with nonaffiliates so they can market to you.</i></li> </ul>  |
| <b>Joint marketing</b> | <p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>• <i>MFS doesn't jointly market.</i></li> </ul>  |

## Other important information

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

