SCUDDER INVESTMENTS

Semiannual report to
contract holders for the six months
ended June 30, 2005

# Semiannual report

For contract holders of Scudder Destinations[SM]

AIM Variable Insurance Funds

The Alger American Fund

Credit Suisse Trust

Dreyfus Investment Portfolios

The Dreyfus Socially Responsible Growth Fund, Inc.

Scudder Variable Series I

Scudder Variable Series II

# PROSPECTUS SUPPLEMENTS

This section includes supplements to your current prospectus.

Please read these supplements carefully and retain with your current prospectus.

(Prospectus supplements are not part of this report.)

# Scudder Variable Series I

Bond Portfolio

## Supplement to the currently effective prospectuses

*Effective August 1, 2005, the following replaces the Portfolio's investment objective which appears in the section "The Portfolio's Main Investment Strategy."*

The portfolio seeks to maximize total return consistent with preservation of capital and prudent investment management, by investing for both current income and capital appreciation.

*Please Retain This Supplement for Future Reference*

May 6, 2005
SVS1-3606

Printed on recycled paper

# Scudder Variable Series II

## SVS Index 500 Portfolio

## Supplement to the currently effective prospectus

Deutsche Investment Management Americas Inc. (the “Advisor”), the investment advisor for the portfolio, is proposing the merger of SVS Index 500 Portfolio (the “Acquired Portfolio”) into Scudder VIT Equity 500 Index Fund (the “Acquiring Fund”), a series of Scudder Investments VIT Funds, as part of the Advisor’s initiative to restructure and streamline the family of Scudder funds.

Completion of the merger is subject to a number of conditions, including final approval by each of the Acquired Portfolio’s and Acquiring Fund’s Board and approval by shareholders of the Acquired Portfolio at a shareholder meeting expected to be held within approximately the next five months. Prior to the shareholder meeting, shareholders of the Acquired Portfolio will receive: (i) a Proxy Statement/Prospectus describing in detail the proposed merger and the Board’s considerations in recommending that shareholders approve the merger; (ii) a proxy card(s) with which shareholders may vote on the proposed merger; and (iii) a Prospectus for the Acquiring Fund.

*Please Retain This Supplement for Future Reference*

May 2, 2005
SVS2-3601

# Scudder Variable Series II

## SVS INVESCO Dynamic Growth Portfolio

## Supplement to the currently effective prospectuses

*The following replaces the disclosure in "The Portfolio Subadvisors" section of the portfolio's prospectuses:*

Effective August 1, 2005, Salomon Brothers Asset Management Inc. ("SBAM"), will become the subadvisor to the above-noted portfolio for an interim period, replacing INVESCO Institutional (N.A.) Inc. On May 11, 2005, the Board of Trustees of Scudder Variable Series II approved (i) an interim subadvisory agreement between Deutsche Investment Management Americas Inc. (the "Advisor"), on behalf of the portfolio, and SBAM; (ii) subject to shareholder approval, a permanent subadvisory agreement between the Advisor, on behalf of the portfolio, and SBAM; (iii) an amended investment management agreement between the Advisor and the portfolio; and (iv) changing the portfolio's name to Scudder Salomon Aggressive Growth Portfolio, effective August 1, 2005. The interim period begins August 1, 2005 and will continue for no longer than 150 days. During the interim period, the Advisor will seek shareholder approval of a new subadvisory agreement between the Advisor, on behalf of the portfolio, and SBAM. In addition, during the interim period, the portfolio will operate with a new investment objective and strategy, detailed below.

As the portfolio's subadvisor, SBAM, under the supervision of the Board, will make the portfolio's investment decisions, buy and sell securities for the portfolio, and conduct research that leads to these purchase and sale decisions. SBAM will also be responsible for selecting brokers and dealers, and for negotiating brokerage commissions and dealer charges. SBAM, located at 399 Park Avenue, New York, New York 10022, was established in 1987, and together with affiliates in London, Tokyo and Hong Kong, provides a broad range of fixed-income and equity investment services to individual and institutional clients throughout the world. It is a wholly owned subsidiary of Citigroup Inc. Citigroup businesses provide a broad range of financial services — asset management, banking and consumer finance, credit and charge cards, insurance, investments, investment banking and trading — and use diverse channels to make them available to consumer and corporate customers around the world. As of December 31, 2004, SBAM had approximately $79.5 billion in assets under management.

Effective August 1, 2005, the Advisor will pay a fee to SBAM for acting as subadvisor to the portfolio at the annual rates shown below:

| Average Daily Net Assets | Fee Rate |
|---|---|
| First $100 million | 0.425% |
| Next $400 million | 0.400% |
| Over $500 million | 0.350% |

*The following supplements disclosure in the "Investment Advisor" section of the portfolio's prospectuses:*

Effective August 1, 2005, the investment management fee paid by the portfolio to the Advisor will be lowered. The new fee paid by the portfolio will be a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, at the annual rates shown below:

| Average Daily Net Assets | Fee Rate |
|---|---|
| First $250 million | 0.800% |
| Next $500 million | 0.775% |
| Next $750 million | 0.750% |
| Over $1.5 billion | 0.725% |

*Effective August 1, 2005, the following replaces the disclosure in "The Portfolio's Main Investment Strategy" section of the portfolio's prospectuses:*

## The Portfolio's Main Investment Strategy

The portfolio seeks capital appreciation.

The portfolio seeks to achieve its objective by investing primarily in common stocks of companies that the subadvisor believes are experiencing, or will experience, growth in earnings that exceeds the average rate of earnings growth of the companies in the S&P 500 Index. The portfolio invests in large, well-known companies that offer prospects of long-term earnings growth. However, because higher earnings growth rates are often achieved by small- to medium-sized companies, a significant portion of the assets may be invested in the securities of such companies.

The subadvisor emphasizes individual security selection while diversifying the portfolio's investments across industries, which may help to reduce risk. The subadvisor focuses primarily, but not exclusively, on emerging growth companies that have passed their "start up" phase and show positive earnings and the prospect of achieving significant profit gains beginning two to three years after the portfolio acquires their stock. When evaluating an individual stock, the subadvisor considers whether the company may benefit from:

- New technologies, products or services.
- New cost-reducing measures.
- Changes in management.
- Favorable changes in government regulations.

While the portfolio generally invests in larger companies, it sometimes invests in the securities of small- and mid-size companies. The prices of these securities tend to move up and down more rapidly than the securities prices of larger, more established companies and the price of portfolio shares tends to fluctuate more than it would if the portfolio invested in the securities of larger companies.

The portfolio may lend its investment securities up to 33 1/3% of its total assets to approved institutional borrowers who need to borrow securities in order to complete certain transactions.

Although major changes tend to be infrequent, the Board of Trustees could change the portfolio's investment objective without seeking shareholder approval.

*Effective August 1, 2005, the following replaces the disclosure in "The Portfolio Manager" section of the portfolio's prospectuses:*

The portfolio's subadvisor is Salomon Brothers Asset Management Inc. ("SBAM"). Richard Freeman is the portfolio manager and is responsible for the day-to-day management of the portfolio. Mr. Freeman has more than 28 years of investment industry experience, 20 years of which have been with SBAM or its affiliates.

*Effective August 1, 2005, the following supplements the disclosure in the "Performance" section of the portfolio's prospectuses:*

**Average Annual Total Returns** (%) as of 12/31/2004

| | 1 Year | Life of Portfolio* |
|---|---|---|
| **Index 2** | 15.48 | 2.45 |

**Index 2:** The Russell 3000 Growth Index is a capitalization-weighted index containing the growth stocks in the Russell 3000 Index.**

* *Index comparison begins 4/30/01.*

** *On August 1, 2005, the Russell 3000 Growth Index will replace the Russell Mid Cap Growth Index as the portfolio's benchmark index because the Advisor believes it is more appropriate to measure the portfolio's performance against the Russell 3000 Growth Index as it more accurately reflects the portfolio's new investment goal and strategy.*

*Please Retain This Supplement for Future Reference*

May 27, 2005
SVS2-3610

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# Scudder Variable Series II

## Scudder Technology Growth Portfolio

## Supplement to the currently effective prospectuses

***The following replaces "The portfolio managers" section of the prospectuses.***

The portfolio is managed by a team of investment professionals who each play an important role in the portfolio's management process. This team works for the advisor or its affiliates and is supported by a large staff of economists, research analysts, traders and other investment specialists. The advisor or its affiliates believe(s) its team approach benefits portfolio investors by bringing together many disciplines and leveraging its extensive resources.

The portfolio is managed by a team of investment professionals who collaborate to implement the portfolio's investment strategy. The team is led by a lead portfolio manager who is responsible for developing the portfolio's investment strategy. Each portfolio manager on the team has authority over all aspects of the portfolio's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio construction techniques, portfolio risk assessment and the management of daily cash flows in accordance with portfolio holdings

The following people handle the day-to-day management of the portfolio:

*Ian Link, CFA*
Managing Director of Deutsche Asset Management and Lead Manager of the portfolio.

- Joined Deutsche Asset Management and the portfolio in 2004.
- Head of Technology Global Sector Team.
- Prior to joining Deutsche Asset Management, had 14 years of experience as senior vice president, fund manager, head of communications and technology teams and equity analyst for Franklin Templeton Investments.
- BA, University of California, Davis; MBA, University of California, Berkeley.

*Kelly P. Davis*
Vice President of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Global sector analyst for technology sector: New York.
- Joined Deutsche Asset Management in 2003, after eight years of experience with semiconductors, as associate analyst in Equities Research with Credit Suisse First Boston, team leader in applications engineering at Advanced Micro Devices, and in technical roles at Interactive Silicon, Motorola, Inc. and Tellabs Operations, Inc. Joined the portfolio in 2005.
- BS, Purdue University; MBA, University of California, Berkeley.

*Brian S. Peters, CFA*
Vice President of Deutsche Asset Management and Portfolio Manager of the portfolio.

- Global sector analyst for technology sector: New York.
- Joined Deutsche Asset Management in 1999 and the portfolio in 2005.
- Prior to joining the portfolio, Portfolio Manager for Global Equity and Global sector analyst for Industrials.
- BA, University of Alabama, Birmingham.

The portfolio's Statement of Additional Information provides additional information about the portfolio managers' investments in the portfolio, a description of their compensation structure and information regarding other accounts they manage.

*Please Retain This Supplement for Future Reference*

May 31, 2005
SVS2-3612

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# Scudder Variable Series II

SVS Dreman Small Cap Value Portfolio

## Supplement to the currently effective prospectuses

*The following information supplements "The Portfolio's Main Investment Strategy" section of the prospectus.*

The portfolio may lend its investment securities in an amount up to 33 $^{1}/_{3}$% of its total assets to approved institutional borrowers who need to borrow securities in order to complete certain transactions.

*The following information supplements "The Main Risks of Investing in the Portfolio" section of the prospectus.*

**Securities Lending Risk.** Any loss in the market price of securities loaned by the portfolio that occurs during the term of the loan would be borne by the portfolio and would adversely affect the portfolio's performance. Also, there may be delays in recovery of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while the loan is outstanding. However, loans will be made only to borrowers selected by the portfolio's delegate after a review of relevant facts and circumstances, including the creditworthiness of the borrower.

*Please Retain This Supplement for Future Reference*

June 6, 2005
SVS2-3613

Printed on recycled paper

# Scudder Variable Series II

## Scudder Global Blue Chip Portfolio

## Supplement to the currently effective prospectuses

***The people listed below handle the day–to–day management of the portfolio through August 27, 2005. Effective August 27, 2005, Mr. Kratz will become Lead Portfolio Manager of the portfolio.***

*Steve M. Wreford, CFA*
Managing Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the portfolio through August 27, 2005.

- Joined Deutsche Asset Management in 2000 and the portfolio in 2002.
- Responsible for European Telecommunications Research.
- Prior to that, five years of experience as a telecommunication and technology equity analyst for CCF International, New York; CCF Charterhouse, London, and as a management consultant for KPMG, UK.
- Chartered Accountant, UK (US CPA equivalent).
- BSc, Aston University.

*Oliver Kratz*
Managing Director of Deutsche Asset Management and Co-Lead Portfolio Manager of the portfolio.

- Joined Deutsche Asset Management in 1996 and the portfolio in 2003.
- Head of global portfolio selection team for Alpha Emerging Markets Equity: New York.
- Prior to that, two years of experience at Merrill Lynch, Brown Brothers Harriman and McKinsey & Co.; authored Frontier Emerging Markets Securities Price Behavior and Valuation; Kluwers Academic Publishers, 1999.
- BA, Tufts University and Karlova University; MALD and Ph.D, The Fletcher School, administered jointly by Harvard University and Tufts University.

*Please Retain This Supplement for Future Reference*

July 15, 2005
SVS2-3614

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# Scudder Variable Series II

## Scudder Aggressive Growth Portfolio

## Supplement to the currently effective prospectuses

*The following information supplements the portfolio's currently effective prospectuses:*

Effective October 28, 2005, Scudder Aggressive Growth Portfolio will change its name to Scudder Mid Cap Growth Portfolio and adopt a new investment objective and strategy, as detailed below.

*Effective October 28, 2005, the following replaces the disclosure in "The Portfolio's Main Investment Strategy" section of the portfolio's prospectuses:*

### The Portfolio's Main Investment Strategy

The portfolio seeks long-term capital growth.

Under normal circumstances, the portfolio invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, determined at the time of purchase, in companies with market capitalizations within the market capitalization range of the Russell Mid Cap Growth Index or securities with equity characteristics that provide exposure to those companies. It may also invest in convertible securities when the managers believe it is more advantageous than investing in a company's common stock. The managers believe these companies contain the greatest concentration of businesses with significant growth prospects.

The portfolio invests primarily in equity securities of medium-sized growth-oriented companies. The managers use an active process which combines financial analysis with company visits to evaluate management and strategies. Each manager has specific sector responsibilities with investment discretion over securities within their sectors.

Company research lies at the heart of the investment process. The managers use a "bottom-up" approach to picking securities. This approach focuses on individual stock selection rather than industry selection.

- The managers focus on undervalued stocks with fast-growing earnings and superior near-to-intermediate term performance potential.
- The managers emphasize individual selection of medium-sized stocks across all economic sectors, early in their growth cycles and with the potential to be the blue chips of the future.
- The managers generally seek companies with leading or dominant position in their niche markets, a high rate of return on invested capital and the ability to finance a major part of future growth from internal sources.

The portfolio follows a disciplined selling process in order to lessen risk. A security may be sold if one or more of the following conditions are met:

- the stock price reaches a portfolio manager's expectations;
- there is a material change in the company's fundamentals;
- the managers believe other investments offer better opportunities; or
- the market capitalization of a stock distorts the weighted average market capitalization of the portfolio.

The portfolio may also invest up to 20% of its assets in stocks and other securities of companies based outside the US. The portfolio may lend its investment securities up to 33 1/3% of its total assets to approved institutional borrowers who need to borrow securities in order to complete certain transactions.

Although major changes tend to be infrequent, the Board of Trustees of Scudder Variable Series II could change the portfolio's investment objective without seeking shareholder approval. However, the Board will provide shareholders with at least 60 days' notice prior to making any changes to the portfolio's 80% investment policy.

## Other Investments

The portfolio is permitted, but not required, to use various types of derivatives (contracts whose value is based on, for example, indexes, currencies or securities). In particular, the portfolio may use futures, options and covered call options. The portfolio may use derivatives in circumstances where the managers believe they offer an economical means of gaining exposure to a particular asset class or to help meet shareholder redemptions or other needs while maintaining exposure to the market.

The portfolio may use hedging transactions to attempt to reduce specific risks. For example, to protect the portfolio against circumstances that would normally cause the portfolio's securities to decline in value, the portfolio may buy or sell a derivative contract that would normally increase in value under the same circumstances. The portfolio's ability to hedge may be limited by the costs of the derivatives contracts. The portfolio may attempt to lower the cost of hedging by entering into transactions that provide only limited protection, including transactions that (1) hedge only a portion of the portfolio, (2) use derivatives contracts that cover a narrow range of circumstances or (3) involve the sale of derivatives contracts with different terms.

The portfolio's equity investments are mainly common stocks, but may also include other types of equities such as preferred or convertible securities.

As a temporary defensive measure, the portfolio could shift up to 100% of assets into investments such as money market investments or other short-term bonds that offer comparable safety. In addition, as a temporary defensive position, the portfolio may invest up to 100% of assets in the common stock of larger companies or in fixed-income securities. This could prevent losses, but, while engaged in a temporary defensive position, the portfolio may not achieve its investment objective. However, the portfolio managers may choose not to use these strategies for various reasons, even in very volatile market conditions.

*Effective October 28, 2005, the following replaces the disclosure in "The Main Risks of Investing in the Portfolio" section of the portfolio's prospectuses:*

## The Main Risks of Investing in the Portfolio

There are several risk factors that could hurt the portfolio's performance, cause you to lose money or make the portfolio perform less well than other investments.

**Stock Market Risk.** As with most stock portfolios, the most important factor with this portfolio is how stock markets perform — in this case, the medium-sized capitalization portion of the US stock market. When prices of these stocks fall, you should expect the value of your investment to fall as well. Because a stock represents ownership in its issuer, stock prices can be hurt by poor management, shrinking product demand and other business risks. These may affect single companies as well as groups of companies. In addition, movements in financial markets may adversely affect a stock's price, regardless of how well the company performs. The market as a whole may not favor the types of investments the portfolio makes and the portfolio may not be able to get an attractive price for them.

**Security Selection Risk.** A risk that pervades all investing is the risk that the securities the managers have selected will not perform to expectations. The managers could be incorrect in their analysis of companies, sectors, economic trends or other matters.

**Industry Risk.** While the portfolio does not concentrate in any industry, to the extent that the portfolio has exposure to a given industry or sector, any factors affecting that industry or sector could affect the value of portfolio securities. For example, manufacturers of consumer goods could be hurt by a rise in unemployment, or technology companies could be hurt by such factors as market saturation, price competition and rapid obsolescence.

**IPO Risk.** Securities purchased in initial public offerings (IPOs) may be very volatile, rising and falling rapidly, often based, among other reasons, on investor perceptions rather than on economic factors. Additionally, investments in IPOs may magnify the portfolio's performance if it has a small asset base. The portfolio is less likely to experience a similar impact on its performance as its assets grow because it is unlikely that the portfolio will be able to obtain proportionately larger IPO allocations.

**Medium-Sized Company Risk.** Medium-sized company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. A shortage of reliable information — the same information gap that creates opportunity — can pose added risk. Industrywide reversals may have a greater impact on medium-sized companies, since they usually lack a large company's financial resources. Medium-sized company stocks are typically less liquid than large company stocks; when things are going poorly, it is harder to find a buyer for a medium-sized company's shares.

**Pricing Risk.** At times, market conditions might make it hard to value some investments. As a result, if the portfolio has valued its securities too highly, you may end up paying too much for portfolio shares when you buy into the portfolio. If the portfolio underestimates the prices of its securities, you may not receive the full market value for your portfolio shares when you sell.

**Derivatives Risk.** Risks associated with derivatives include: the risk that the derivative is not well correlated with the security, index or currency to which it relates; the risk that derivatives used for risk management may not have the intended effects and may result in losses or missed opportunities; the risk that the portfolio will be unable to sell the derivative because of an illiquid secondary market; the risk that a counterparty is unwilling or unable to meet its obligation; the risk of interest rate movements; and the risk that the derivatives transaction could expose the portfolio to the effects of leverage, which could increase the portfolio's exposure to the market and magnify potential losses. There is no guarantee that derivatives activities will be employed or that they will work, and their use could cause lower returns or even losses to the portfolio.

**Securities Lending Risk.** Any loss in the market price of securities loaned by the portfolio that occurs during the term of the loan would be borne by the portfolio and would adversely affect the portfolio's performance. Also, there may be delays in recovery of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while the loan is outstanding. However, loans will be made only to borrowers selected by the portfolio's delegate after a review of relevant facts and circumstances, including the creditworthiness of the borrower.

Other factors that could affect performance include:

- the managers could be incorrect in their analysis of industries, companies, economic trends, the relative attractiveness of different sizes of stocks, geographical trends or other matters; and
- foreign stocks tend to be more volatile than their US counterparts, for reasons such as currency fluctuations and political and economic uncertainty.

This portfolio is designed for investors with long-term goals who can tolerate capital fluctuation in pursuit of long-term capital growth.

*Effective October 28, 2005, the following replaces the disclosure in the "Performance" section of the portfolio's Class A prospectus:*

## Performance

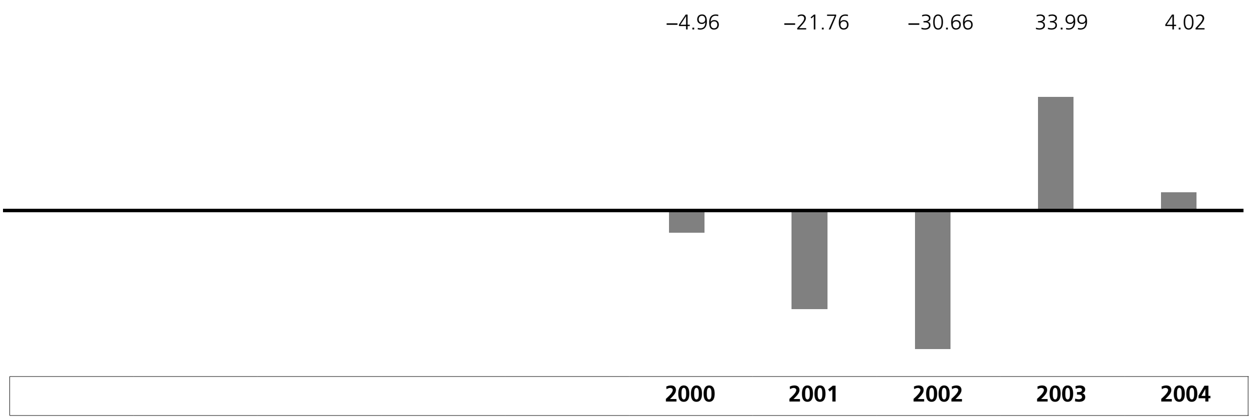
While a portfolio's past performance isn't necessarily a sign of how it will do in the future, it can be valuable information for an investor to know.

Prior to October 28, 2005, the portfolio was named Scudder Aggressive Growth Portfolio and operated with a different goal and investment strategy. Performance would have been different if the portfolio's current policies had been in effect.

The bar chart shows how the returns for Scudder Aggressive Growth Portfolio's Class A shares have varied from year to year, which may give some idea of risk. The table shows how average annual returns for the portfolio's Class A shares compare with three broad-based market indices (which, unlike the portfolio, do not have any fees or expenses). The performance of both the portfolio and the indices varies over time. All figures on this page assume reinvestment of dividends and distributions.

This information doesn't reflect charges and fees associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

**Annual Total Returns** (%) as of 12/31 each year **— Class A shares**




**For the periods included in the bar chart:**

**Best Quarter:** 23.43%, Q4 2001 **Worst Quarter:** –25.94%, Q3 2001

**2005 Total Return as of March 31:** 1.22%

**Average Annual Total Returns** (%) as of 12/31/2004

| | 1 Year | 5 Years | Life of Portfolio* |
|---|---|---|---|
| Portfolio — Class A | 4.02 | –6.40 | 0.09 |
| Index 1 | 15.48 | –3.36 | 2.96 |
| Index 2 | 6.93 | –8.87 | –4.09 |
| Index 3 | 10.88 | –2.30 | –0.21 |

**Index 1:** The **Russell Mid Cap Growth Index** is an unmanaged index composed of common stocks of mid cap companies with higher price-to-book ratios and higher forecasted growth values.

**Index 2:** The **Russell 3000 Growth Index** is an unmanaged capitalization-weighted index containing the growth stocks in the Russell 3000 Index.

**Index 3:** The **Standard & Poor's (S&P) 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

* *Since 5/1/99. Index comparisons begin 4/30/99.*

In the bar chart, total returns for 2000, and in 2003 and 2004 would have been lower if operating expenses hadn't been reduced.

In the table, total returns from inception through 2000, and in 2003 and 2004, would have been lower if operating expenses hadn't been reduced.

On October 28, 2005, the Russell Mid Cap Growth Index will replace the Russell 3000 Growth Index and the S&P 500 Index as the portfolio's benchmark index because the advisor believes it is more appropriate to measure the portfolio's performance against the Russell Mid Cap Growth Index as it more accurately reflects the portfolio's investment strategy.

Current performance information may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

*Effective October 28, 2005, the following replaces the disclosure in the "Performance" section of the portfolio's Class B prospectus:*

## Performance

While a portfolio's past performance isn't necessarily a sign of how it will do in the future, it can be valuable information for an investor to know.

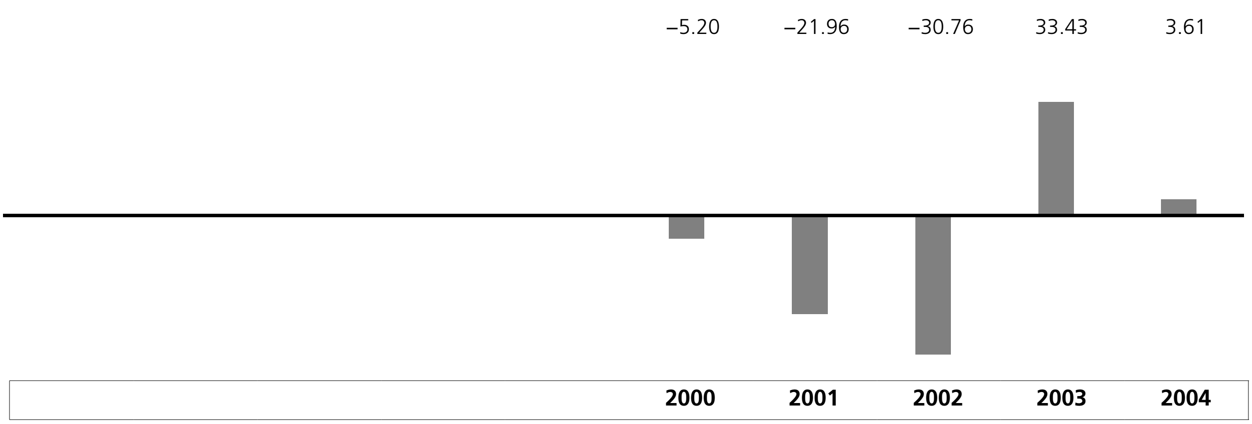
Prior to October 28, 2005, the portfolio was named Scudder Aggressive Growth Portfolio and operated with a different goal and investment strategy. Performance would have been different if the portfolio's current policies had been in effect.

The bar chart shows how the performance of Scudder Aggressive Growth Portfolio has varied from year to year, which may give some idea of risk. The table shows how average annual returns for the portfolio's Class B shares compare with three broad-based market indices (which, unlike the portfolio, do not have any fees or expenses). The performance of both the portfolio and the indices varies over time. All figures on this page assume reinvestment of dividends and distributions.

The inception date for Class B was July 1, 2002. In the bar chart and table, the performance figures for Class B before that date are based on the historical performance of the portfolio's original share class (Class A), adjusted to reflect the higher gross total annual operating expenses of Class B. Class A is offered in a different prospectus.

This information doesn't reflect charges and fees associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.

**Annual Total Returns** (%) as of 12/31 each year **— Class B shares**




**For the periods included in the bar chart:**

**Best Quarter:** 23.35%, Q4 2001 **Worst Quarter:** –25.99%, Q3 2001

**2005 Total Return as of March 31:** 1.13%

**Average Annual Total Returns** (%) as of 12/31/2004

| | 1 Year | 5 Years | Life of Portfolio* |
|---|---|---|---|
| Portfolio — Class B | 3.61 | –6.67 | –0.19 |
| Index 1 | 15.48 | –3.36 | 2.96 |
| Index 2 | 6.93 | –8.87 | –4.09 |
| Index 3 | 10.88 | –2.30 | –0.21 |

**Index 1:** The **Russell Mid Cap Growth Index** is an unmanaged index composed of common stocks of mid cap companies with higher price-to-book ratios and higher forecasted growth values.

**Index 2:** The **Russell 3000 Growth Index** is an unmanaged capitalization-weighted index containing the growth stocks in the Russell 3000 Index.

**Index 3:** The **Standard & Poor's (S&P) 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

* *Since 5/1/99. Index comparisons begin 4/30/99.*

In the bar chart, total return for 2000, 2003 and 2004 would have been lower if operating expenses hadn't been reduced.

In the table, total returns from inception through 2000, and in 2003 and 2004 would have been lower if operating expenses hadn't been reduced.

On October 28, 2005, the Russell Mid Cap Growth Index will replace the Russell 3000 Growth Index and the S&P 500 Index as the portfolio's benchmark index because the advisor believes it is more appropriate to measure the portfolio's performance against the Russell Mid Cap Growth Index as it more accurately reflects the portfolio's investment strategy.

Current performance information may be higher or lower than the performance data quoted above. For more recent performance information, contact your participating insurance company.

*Please Retain This Supplement for Future Reference*

August 19, 2005
SVS2-3611

Printed on recycled paper

# AIM V.I. Utilities Fund

Semiannual Report to Shareholders • June 30, 2005

AIM V.I. UTILITIES FUND seeks capital growth and current income.

**Unless otherwise stated, information presented in this report is as of June 30, 2005, and is based on total net assets.**

The Fund provides a complete list of its holdings four times in each fiscal year, at the quarter-ends. For the second and fourth quarters, the lists appear in the Fund's semiannual and annual reports to shareholders. For the first and third quarters, the Fund files the lists with the Securities and Exchange Commission (SEC) on Form N-Q. The Fund's Form N-Q filings are available on the SEC's Web site, sec.gov. Copies of the Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549-0102. You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 1-202-942-8090 or 1-800-732-0330, or by electronic request at the following E-mail address: publicinfo@sec.gov. The SEC file numbers for the Fund are 811-7452 and 33-57340. The Fund's most recent portfolio holdings, as filed on Form N-Q, have also been made available to insurance companies issuing variable annuity contracts and variable life insurance policies ("variable products") that invest in the Fund.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, from our Client Services department at 800-410-4246 or on the AIM Web site, AIMinvestments.com. On the home page, scroll down and click on AIM Funds Proxy Policy. The information is also available on the SEC Web site, sec.gov.

Information regarding how the Fund voted proxies related to its portfolio securities during the 12 months ended June 30, 2005, is available at our Web site. Go to AIMinvestments.com, access the About Us tab, click on Required Notices and then click on Proxy Voting Activity. Next, select the Fund from the drop-down menu. The information is also available on the SEC Web site, sec.gov.

**This report must be accompanied or preceded by a currently effective Fund prospectus and variable product prospectus, which contain more complete information, including sales charges and expenses. Investors should read each carefully before investing.**

# Management's discussion of Fund performance

## Performance Summary

The six-month reporting period ended June 30, 2005, continued to provide a favorable environment for the Fund as well as the utilities sector as a whole.

The broad U.S. stock market, as represented by the S&P 500 Index, had negative returns for the period, largely due to investors' concerns about the economy and rising short-term interest rates. The Fund, buoyed by the strong performance of the utilities sector, outperformed the S&P 500 Index. Demand remained strong for utilities' services, and utility stocks continued to be favored for their dividends.

**FUND VS. INDEXES**

*Total returns 12/31/04–6/30/05, excluding product issuer charges. If product issuer charges were included, returns would be lower.*

| | |
|---|---|
| Series I Shares | 10.38% |
| Series II Shares | 10.34 |
| Standard & Poor's Composite Index of 500 Stocks (the S&P 500 Index) (Broad Market Index) | –0.81 |
| Lipper Utility Fund Index (Peer Group Index) | 10.15 |

Source: Lipper, Inc.

### How we invest

We invest primarily in natural gas, electricity and telecommunication services companies, selecting stocks based on our quantitative and fundamental analysis of individual companies. Our quantitative analysis focuses on positive cash flows and predictable earnings. Our fundamental analysis seeks strong balance sheets, competent management and sustainable dividends and distributions.

We look for companies that could potentially benefit from industry trends, such as increased demand for certain products and deregulation of state markets, and that are attractively valued relative to the rest of the market. We also monitor and may adjust industry and position weights according to prevailing economic trends such as U.S. gross domestic product growth and interest rate change.

We control risk by:

- diversifying across most industries and sub-industries within the utilities sector
- owning both regulated and unregulated utilities—unregulated companies provide greater growth potential, while regulated firms provide more stable dividends and principal
- generally avoiding excessive concentration of assets in a small number of stocks
- maintaining a reasonable cash position to avoid having to sell stocks during market downturns

We may sell a stock for any of the following reasons:

- earnings growth is threatened by deterioration in the firm's fundamentals or change in the operating environment
- valuation becomes too high
- corporate strategy changes

### Market conditions and your Fund

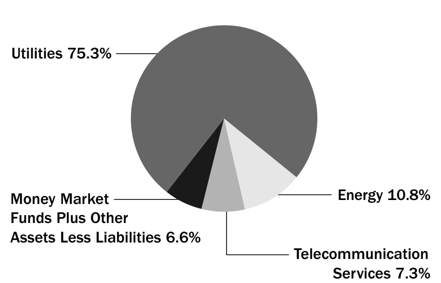
Strong demand for equities of companies in the utilities sector continued to keep their stock prices high during the reporting period. We believe tax incentives were a factor fueling this demand. Investors remained willing to pay higher prices for equities that pay dividends, which many utilities stocks do.

Additionally, the percentage of total production capacity that is currently being utilized remained high for utilities in most parts of the United States. We believe many utilities companies could potentially benefit from this trend. Normally, high capacity utilization tends to keep companies' earnings strong, in turn supporting continued dividends, as well as high valuations for the firms' equities.

The prices of utilities stocks tend to be strongly affected by interest rate movements because dividend-paying stocks are often pur-

**PORTFOLIO COMPOSITION**

*By sector*




The Fund's holdings are subject to change, and there is no assurance that the Fund will continue to hold any particular security.

**TOP INDUSTRIES***

| | |
|---|---|
| 1. Electric Utilities | 40.2% |
| 2. Gas Utilities | 12.8 |
| 3. Multi-Utilities | 11.9 |
| 4. Independent Power Producers & Energy Traders | 8.9 |
| 5. Oil & Gas Storage & Transportation | 7.6 |
| 6. Integrated Telecommunication Services | 5.8 |
| 7. Coal & Consumable Fuels | 3.2 |
| 8. Water Utilities | 1.6 |
| 9. Wireless Telecommunication Services | 1.4 |

*Excluding money market fund holdings.

**TOP 10 EQUITY HOLDINGS***

| | |
|---|---|
| 1. TXU Corp. | 5.3% |
| 2. Exelon Corp. | 4.5 |
| 3. PG&E Corp. | 4.3 |
| 4. Questar Corp. | 4.2 |
| 5. Williams Cos., Inc. (The) | 4.0 |
| 6. Entergy Corp. | 3.9 |
| 7. Dominion Resources, Inc. | 3.8 |
| 8. Kinder Morgan, Inc. | 3.7 |
| 9. FPL Group, Inc. | 3.4 |
| 10. FirstEnergy Corp. | 3.3 |

| | |
|---|---|
| TOTAL NET ASSETS | $204.2 million |
| TOTAL NUMBER OF HOLDINGS* | 45 |

chased as an alternative to bonds. Despite the Federal Reserve's continued increases in short-term interest rates over the period, long-term interest rates held fairly steady, as many investors appeared to believe inflation would remain low. In this neutral interest rate environment, utilities stocks held their value well.

The Fund's holdings are concentrated in the utilities, energy and telecommunication services sectors. During the period, we increased our holdings in the utilities and energy sectors, which were the best-performing sectors in the S&P 500 Index. The electric utilities and gas utilities industries produced the largest contributions to Fund performance and also remained the Fund's largest industry weightings. Continued strong demand for power kept earnings high for these industries on the whole, feeding investor interest in their equities.

Demand remained strong for utilities' services, and utility stocks continued to be favored for their dividends.

The only sector that detracted from Fund performance was telecommunication services. Both the integrated telecommunications and wireless telecommunications services industries produced poor results for the Fund. We continued reducing the portfolio's weighting in telecommunications over the period, because we felt that large debt loads and a lack of pricing power in the sector as a whole made these stocks too risky to retain.

Holdings that contributed significantly to Fund performance for the period included:

■ Energy holding company **Questar**. The company experienced a hefty increase in net income during 2004 with a further 25% increase in the first quarter of 2005, and increased its quarterly dividend in the second quarter of 2005.

■ **PG&E**, a utility holding company. The firm emerged in 2004 from a bankruptcy brought on by California's energy crisis and has accomplished a remarkable turnaround. PG&E was able to pay its creditors in full, restore its investment-grade credit ratings, pay dividends to shareholders and buy back some shares of its stock. (Stock buybacks generally increase the value of the shares outstanding, including the Fund's holdings.)

Such indications of positive cash flows, strong balance sheets and sustainable dividends as were shown by these companies are just what we look for in a Fund holding.

There were also some holdings whose effects on Fund performance were negative.

■ We exited our position in California-based independent power producer **Calpine**, the largest net detractor from Fund performance for the period. Calpine's stock price suffered from investor apprehension about the firm's fundamentals, such as its heavy debt load and difficult market position.

■ We also sold our holdings in telecommunications firms **Verizon** and **SBC Communications**. Both shared that sector's problems discussed above and were net detractors from Fund performance for the period.

International exposure changed relatively little, ending the six months at a bit above 13%. The strengthening of the U.S. dollar made foreign currency exposure a minor negative for Fund results.

## In closing

We were pleased by the Fund's performance over the reporting period, as well as the continued strength of the utilities sector. We remain committed to our strategies of applying a bottom-up stock selection approach and diversifying holdings across industries in the utilities sector.

We continue to seek attractively valued stocks of companies with strong financial positions, sustainable dividends and market positions we believe may benefit from economic trends affecting the utilities sector. We maintain our commitment to sound risk control practices.

As always, we thank you for your continued investment in AIM V.I. Utilities Fund.

*The views and opinions expressed in management's discussion of Fund performance are those of A I M Advisors, Inc. These views and opinions are subject to change at any time based on factors such as market and economic conditions. These views and opinions may not be relied upon as investment advice or recommendations, or as an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but A I M Advisors, Inc. makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

**John S. Segner,** senior portfolio manager, is lead manager of AIM V.I. Utilities Fund. He has been in the investment business since 1980 and joined INVESCO in 1997. He holds a B.S. from the University of Alabama and an M.B.A. with a concentration in finance from The University of Texas-Austin.

**For a discussion of risks of investing in your Fund, indexes used in this report and your Fund's long-term performance, please turn the page.**

# Your Fund's long-term performance

**AVERAGE ANNUAL TOTAL RETURNS**

*As of 6/30/05*

| | |
|---|---|
| **Series I Shares** | |
| Inception (12/30/94) | 7.13% |
| 10 Years | 7.38 |
| 5 Years | –2.73 |
| 1 Year | 32.85 |
| **Series II Shares** | |
| 10 Years | 7.12% |
| 5 Years | –2.95 |
| 1 Year | 32.56 |

*Returns since the inception date of Series II shares are historical. All other returns are the blended returns of the historical performance of Series II shares since their inception and the restated historical performance of Series I shares (for periods prior to inception of Series II shares) adjusted to reflect the higher Rule 12b-1 fees applicable to Series II shares. The inception date of Series II shares is April 30, 2004. Series I and Series II shares invest in the same portfolio of securities and will have substantially similar performance, except to the extent that expenses borne by each class differ.*

*The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Please contact your variable product issuer or financial advisor for the most recent month-end variable product performance. Performance figures reflect Fund expenses, reinvested distributions and changes in net asset value. Investment return and principal value will fluctuate so that you may have a gain or loss when you sell shares.*

*AIM V.I. Utilities Fund, a series portfolio of AIM Variable Insurance Funds, is currently offered through insurance companies issuing variable products. You cannot purchase shares of the Fund directly. Performance figures given represent the Fund and are not intended to reflect actual variable product values. They do not reflect sales charges, expenses and fees assessed in connection with a variable product. Sales charges, expenses and fees, which are determined by the variable product issuers, will vary and will lower the total return.*

*Per NASD requirements, the most recent month-end performance data at the Fund level, excluding variable product charges, is available on this AIM automated information line, 866-702-4402. As mentioned above, for the most recent month-end performance including variable product charges, please contact your variable product issuer or financial advisor.*

## Principal risks of investing in the Fund

The Fund may invest up to 25% of its assets in the securities of non-U.S. issuers. Securities of Canadian issuers and American Depositary Receipts are not subject to this 25% limitation. International investing presents certain risks not associated with investing solely in the United States. These include risks relating to fluctuations in the value of the U.S. dollar relative to the values of other currencies, the custody arrangements made for the Fund's foreign holdings, differences in accounting, political risks and the lesser degree of public information required to be provided by non-U.S. companies.

Investing in a single-sector or single-region mutual fund involves greater risk and potential reward than investing in a more diversified fund.

Investing in small and mid-size companies involves risks not associated with investing in more established companies, including business risk, significant stock price fluctuations and illiquidity.

## About indexes used in this report

The unmanaged Standard & Poor's Composite Index of 500 Stocks (the **S&P 500® Index**) is an index of common stocks frequently used as a general measure of U.S. stock market performance.

The unmanaged **Lipper Utility Fund Index** represents an average of the 30 largest utility funds tracked by Lipper, Inc., an independent mutual fund performance monitor.

The Fund is not managed to track the performance of any particular index, including the indexes defined here, and consequently, the performance of the Fund may deviate significantly from the performance of the indexes.

A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of an index of funds reflects fund expenses; performance of a market index does not.

## Other information

The returns shown in management's discussion of Fund performance are based on net asset values calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes, and as such, the net asset values for shareholder transactions and the returns based on those net asset values may differ from the net asset values and returns reported in the Financial Highlights. Additionally, the returns and net asset values shown throughout this report are at the Fund level only and do not include variable product issuer charges. If such charges were included, the total returns would be lower.

Industry classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. and Standard & Poor's.

# Calculating your ongoing Fund expenses

## Example

As a shareholder of the Fund, you incur ongoing costs, including management fees; distribution and/or service fees (12b-1); 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 ongoing costs of investing in other mutual funds. The example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period January 1, 2005, through June 30, 2005.

The actual and hypothetical expenses in the examples below do not represent the effect of any fees or other expenses assessed in connection with a variable product; if they did, the expenses shown would be higher while the ending account values shown would be lower.

## Actual expenses

The table below provides information about actual account values and actual expenses. You may use the information in this table, 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 table under the heading entitled "Actual Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

## Hypothetical example for comparison purposes

The table below also 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 Fund's actual cumulative total returns at net asset value after expenses for the six months ended June 30, 2005, appear in the table "Fund vs. Indexes" on the first page of management's discussion of Fund performance.

*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 your ongoing costs. Therefore, the hypothetical information is useful in comparing ongoing costs, and will not help you determine the relative total costs of owning different funds.

| | | ACTUAL | | HYPOTHETICAL (5% annual return before expenses) | |
|---|---|---|---|---|---|
| Share Class | Beginning Account Value (1/1/05) | Ending Account Value (6/30/05)[1] | Expenses Paid During Period[2] | Ending Account Value (6/30/05) | Expenses Paid During Period[2] |
| Series I | $1,000.00 | $1,103.80 | $4.85 | $1,020.18 | $4.66 |
| Series II | 1,000.00 | 1,103.40 | 6.15 | 1,018.94 | 5.91 |

[1] The actual ending account value is based on the actual total return of the Fund for the period January 1, 2005, through June 30, 2005, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses. The Fund's actual cumulative total returns at net asset value after expenses for the six months ended June 30, 2005, appear in the table "Fund vs. Indexes" on the first page of management's discussion of Fund performance.

[2] Expenses are equal to the Fund's annualized expense ratio (0.93% and 1.18% for Series I and Series II shares, respectively) multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).

# Approval of Investment Advisory Agreement and Summary of Independent Written Fee Evaluation

The Board of Trustees of AIM Variable Insurance Funds (the "Board") oversees the management of AIM V.I. Utilities Fund (the "Fund") and, as required by law, determines annually whether to approve the continuance of the Fund's advisory agreement with A I M Advisors, Inc. ("AIM"). Based upon the recommendation of the Investments Committee of the Board, which is comprised solely of independent trustees, at a meeting held on June 30, 2005, the Board, including all of the independent trustees, approved the continuance of the advisory agreement (the "Advisory Agreement") between the Fund and AIM for another year, effective July 1, 2005.

The Board considered the factors discussed below in evaluating the fairness and reasonableness of the Advisory Agreement at the meeting on June 30, 2005 and as part of the Board's ongoing oversight of the Fund. In their deliberations, the Board and the independent trustees did not identify any particular factor that was controlling, and each trustee attributed different weights to the various factors.

One of the responsibilities of the Senior Officer of the Fund, who is independent of AIM and AIM's affiliates, is to manage the process by which the Fund's proposed management fees are negotiated to ensure that they are negotiated in a manner which is at arm's length and reasonable. To that end, the Senior Officer must either supervise a competitive bidding process or prepare an independent written evaluation. The Senior Officer has recommended an independent written evaluation in lieu of a competitive bidding process and, upon the direction of the Board, has prepared such an independent written evaluation. Such written evaluation also considered certain of the factors discussed below. In addition, as discussed below, the Senior Officer made certain recommendations to the Board in connection with such written evaluation.

The discussion below serves as a summary of the Senior Officer's independent written evaluation and recommendations to the Board in connection therewith, as well as a discussion of the material factors and the conclusions with respect thereto that formed the basis for the Board's approval of the Advisory Agreement. After consideration of all of the factors below and based on its informed business judgment, the Board determined that the Advisory Agreement is in the best interests of the Fund and its shareholders and that the compensation to AIM under the Advisory Agreement is fair and reasonable and would have been obtained through arm's length negotiations.

■ The nature and extent of the advisory services to be provided by AIM. The Board reviewed the services to be provided by AIM under the Advisory Agreement. Based on such review, the Board concluded that the range of services to be provided by AIM under the Advisory Agreement was appropriate and that AIM currently is providing services in accordance with the terms of the Advisory Agreement.

■ The quality of services to be provided by AIM. The Board reviewed the credentials and experience of the officers and employees of AIM who will provide investment advisory services to the Fund. In reviewing the qualifications of AIM to provide investment advisory services, the Board reviewed the qualifications of AIM's investment personnel and considered such issues as AIM's portfolio and product review process, various back office support functions provided by AIM and AIM's equity and fixed income trading operations. Based on the review of these and other factors, the Board concluded that the quality of services to be provided by AIM was appropriate and that AIM currently is providing satisfactory services in accordance with the terms of the Advisory Agreement.

■ The performance of the Fund relative to comparable funds. The Board reviewed the performance of the Fund during the past one, three and five calendar years against the performance of funds advised by other advisors with investment strategies comparable to those of the Fund. The Board noted that the Fund's performance in such periods was below the median performance of such comparable funds. The Board also noted that AIM began serving as investment advisor to the Fund in April 2004. Based on this review, the Board concluded that no changes should be made to the Fund and that it was not necessary to change the Fund's portfolio management team at this time.

■ The performance of the Fund relative to indices. The Board reviewed the performance of the Fund during the past one, three and five calendar years against the performance of the Lipper Utility Fund Index. The Board noted that the Fund's performance for the one and three year periods was comparable to the performance of such Index and below such Index for the five year period. The Board also noted that AIM began serving as investment advisor to the Fund in April 2004. Based on this review, the Board concluded that no changes should be made to the Fund and that it was not necessary to change the Fund's portfolio management team at this time.

■ Meeting with the Fund's portfolio managers and investment personnel. With respect to the Fund, the Board is meeting periodically with such Fund's portfolio managers and/or other investment personnel and believes that such individuals are competent and able to continue to carry out their responsibilities under the Advisory Agreement.

■ Overall performance of AIM. The Board considered the overall performance of AIM in providing investment advisory and portfolio administrative services to the Fund and concluded that such performance was satisfactory.

■ Fees relative to those of clients of AIM with comparable investment strategies. The Board reviewed the advisory fee rate for the Fund under the Advisory Agreement. The Board noted that this rate was lower than the initial advisory fee rate for a mutual fund advised by AIM with investment strategies comparable to those of the Fund, although the advisory fee schedule for the mutual fund included breakpoints. The Board noted that AIM has agreed to waive advisory fees of the Fund and to limit the Fund's total operating expenses, as discussed below. Based on this review, the Board concluded that the advisory fee rate for the Fund under the Advisory Agreement was fair and reasonable.

■ Fees relative to those of comparable funds with other advisors. The Board reviewed the advisory fee rate for the Fund under the Advisory Agreement. The Board compared effective contractual advisory fee rates at a common asset level and noted that the Fund's rate was above the median rate of the funds advised by other advisors with investment strategies comparable to those of the Fund that the Board reviewed. The Board noted that AIM has agreed to waive advisory fees of the Fund and to limit the Fund's total operating expenses, as discussed below. Based on this review, the Board concluded that the advisory fee rate for the Fund under the Advisory Agreement was fair and reasonable.

■ Expense limitations and fee waivers. The Board noted that AIM has contractually agreed to waive advisory fees of the Fund through June 30, 2006 to the extent necessary so that the advisory fees payable by the Fund do not exceed a specified maximum advisory fee rate, which maximum rate includes breakpoints and is based on net asset levels. The Board considered the contractual nature of this fee waiver and noted that it remains in effect until June 30, 2006. The Board noted that AIM has contractually agreed to waive fees and/or limit expenses of the Fund through April 30, 2006 in an amount necessary to limit total annual operating expenses to a specified percentage of average daily net assets for each class of the Fund. The Board considered the contractual nature of this fee waiver/expense limitation and noted that it remains in effect until April 30, 2006. The Board considered the effect these fee waivers/expense limitations would have on the Fund's estimated expenses and concluded that the levels of fee waivers/expense limitations for the Fund were fair and reasonable.

*(continued)*

■ Breakpoints and economies of scale. The Board reviewed the structure of the Fund's advisory fee under the Advisory Agreement, noting that it does not include any breakpoints. The Board considered whether it would be appropriate to add advisory fee breakpoints for the Fund or whether, due to the nature of the Fund and the advisory fee structures of comparable funds, it was reasonable to structure the advisory fee without breakpoints. Based on this review, the Board concluded that it was not necessary to add advisory fee breakpoints to the Fund's advisory fee schedule. The Board reviewed the level of the Fund's advisory fees, and noted that such fees, as a percentage of the Fund's net assets, would remain constant under the Advisory Agreement because the Advisory Agreement does not include any breakpoints. The Board noted that AIM has contractually agreed to waive advisory fees of the Fund through June 30, 2006 to the extent necessary so that the advisory fees payable by the Fund do not exceed a specified maximum advisory fee rate, which maximum rate includes breakpoints and is based on net asset levels. The Board concluded that the Fund's fee levels under the Advisory Agreement therefore would not reflect economies of scale, although the advisory fee waiver reflects economies of scale.

■ Investments in affiliated money market funds. The Board also took into account the fact that uninvested cash and cash collateral from securities lending arrangements (collectively, "cash balances") of the Fund may be invested in money market funds advised by AIM pursuant to the terms of an SEC exemptive order. The Board found that the Fund may realize certain benefits upon investing cash balances in AIM advised money market funds, including a higher net return, increased liquidity, increased diversification or decreased transaction costs. The Board also found that the Fund will not receive reduced services if it invests its cash balances in such money market funds. The Board noted that, to the extent the Fund invests in affiliated money market funds, AIM has voluntarily agreed to waive a portion of the advisory fees it receives from the Fund attributable to such investment. The Board further determined that the proposed securities lending program and related procedures with respect to the lending Fund is in the best interests of the lending Fund and its respective shareholders. The Board therefore concluded that the investment of cash collateral received in connection with the securities lending program in the money market funds according to the procedures is in the best interests of the lending Fund and its respective shareholders.

■ Independent written evaluation and recommendations of the Fund's Senior Officer. The Board noted that, upon their direction, the Senior Officer of the Fund had prepared an independent written evaluation in order to assist the Board in determining the reasonableness of the proposed management fees of the AIM Funds, including the Fund. The Board noted that the Senior Officer's written evaluation had been relied upon by the Board in this regard in lieu of a competitive bidding process. In determining whether to continue the Advisory Agreement for the Fund, the Board considered the Senior Officer's written evaluation and the recommendation made by the Senior Officer to the Board that the Board consider implementing a process to assist them in more closely monitoring the performance of the AIM Funds. The Board concluded that it would be advisable to implement such a process as soon as reasonably practicable.

■ Profitability of AIM and its affiliates. The Board reviewed information concerning the profitability of AIM's (and its affiliates') investment advisory and other activities and its financial condition. The Board considered the overall profitability of AIM, as well as the profitability of AIM in connection with managing the Fund. The Board noted that AIM's operations remain profitable, although increased expenses in recent years have reduced AIM's profitability. Based on the review of the profitability of AIM's and its affiliates' investment advisory and other activities and its financial condition, the Board concluded that the compensation to be paid by the Fund to AIM under its Advisory Agreement was not excessive.

■ Benefits of soft dollars to AIM. The Board considered the benefits realized by AIM as a result of brokerage transactions executed through "soft dollar" arrangements. Under these arrangements, brokerage commissions paid by the Fund and/or other funds advised by AIM are used to pay for research and execution services. This research is used by AIM in making investment decisions for the Fund. The Board concluded that such arrangements were appropriate.

■ AIM's financial soundness in light of the Fund's needs. The Board considered whether AIM is financially sound and has the resources necessary to perform its obligations under the Advisory Agreement, and concluded that AIM has the financial resources necessary to fulfill its obligations under the Advisory Agreement.

■ Historical relationship between the Fund and AIM. In determining whether to continue the Advisory Agreement for the Fund, the Board also considered the prior relationship between AIM and the Fund, as well as the Board's knowledge of AIM's operations, and concluded that it was beneficial to maintain the current relationship, in part, because of such knowledge. The Board also reviewed the general nature of the non-investment advisory services currently performed by AIM and its affiliates, such as administrative, transfer agency and distribution services, and the fees received by AIM and its affiliates for performing such services. In addition to reviewing such services, the trustees also considered the organizational structure employed by AIM and its affiliates to provide those services. Based on the review of these and other factors, the Board concluded that AIM and its affiliates were qualified to continue to provide non-investment advisory services to the Fund, including administrative, transfer agency and distribution services, and that AIM and its affiliates currently are providing satisfactory non-investment advisory services.

■ Other factors and current trends. In determining whether to continue the Advisory Agreement for the Fund, the Board considered the fact that AIM, along with others in the mutual fund industry, is subject to regulatory inquiries and litigation related to a wide range of issues. The Board also considered the governance and compliance reforms being undertaken by AIM and its affiliates, including maintaining an internal controls committee and retaining an independent compliance consultant, and the fact that AIM has undertaken to cause the Fund to operate in accordance with certain governance policies and practices. The Board concluded that these actions indicated a good faith effort on the part of AIM to adhere to the highest ethical standards, and determined that the current regulatory and litigation environment to which AIM is subject should not prevent the Board from continuing the Advisory Agreement for the Fund.

# Schedule of Investments

*June 30, 2005*
*(Unaudited)*

| | Shares | Market Value |
|---|---|---|
| **Domestic Common Stocks–80.11%** | | |
| **Coal & Consumable Fuels–3.19%** | | |
| Peabody Energy Corp. | 125,000 | $ 6,505,000 |
| **Electric Utilities–34.15%** | | |
| Ameren Corp. | 90,000 | 4,977,000 |
| American Electric Power Co., Inc. | 75,000 | 2,765,250 |
| CenterPoint Energy, Inc. | 240,000 | 3,170,400 |
| Cinergy Corp. | 78,000 | 3,495,960 |
| DTE Energy Co. | 44,000 | 2,057,880 |
| Edison International | 140,000 | 5,677,000 |
| Entergy Corp. | 105,000 | 7,932,750 |
| Exelon Corp. | 180,024 | 9,240,632 |
| FirstEnergy Corp. | 140,000 | 6,735,400 |
| FPL Group, Inc. | 165,000 | 6,939,900 |
| PG&E Corp. | 235,000 | 8,821,900 |
| PPL Corp. | 93,000 | 5,522,340 |
| Westar Energy, Inc. | 100,000 | 2,403,000 |
| | | 69,739,412 |
| **Gas Utilities–11.63%** | | |
| Equitable Resources, Inc. | 80,000 | 5,440,000 |
| KeySpan Corp. | 110,000 | 4,477,000 |
| ONEOK, Inc. | 105,000 | 3,428,250 |
| Peoples Energy Corp. | 42,000 | 1,825,320 |
| Questar Corp. | 130,000 | 8,567,000 |
| | | 23,737,570 |
| **Independent Power Producers & Energy Traders–8.87%** | | |
| Constellation Energy Group | 75,000 | 4,326,750 |
| Duke Energy Corp. | 100,000 | 2,973,000 |
| TXU Corp. | 130,000 | 10,801,700 |
| | | 18,101,450 |
| **Integrated Telecommunication Services–4.40%** | | |
| Citizens Communications Co. | 295,000 | 3,964,800 |
| Sprint Corp. | 200,000 | 5,018,000 |
| | | 8,982,800 |
| **Multi-Utilities–8.65%** | | |
| Dominion Resources, Inc. | 105,000 | 7,705,950 |
| OGE Energy Corp. | 70,000 | 2,025,800 |
| SCANA Corp. | 60,000 | 2,562,600 |
| Sempra Energy | 130,000 | 5,370,300 |
| | | 17,664,650 |
| **Oil & Gas Storage & Transportation–7.62%** | | |
| Kinder Morgan, Inc. | 90,000 | $ 7,488,000 |
| Williams Cos., Inc. (The) | 425,000 | 8,075,000 |
| | | 15,563,000 |
| **Water Utilities–1.60%** | | |
| Aqua America Inc. | 110,000 | 3,271,400 |
| Total Domestic Common Stocks (Cost $125,607,190) | | 163,565,282 |
| **Foreign Stocks & Other Equity Interests–13.13%** | | |
| **France–1.65%** | | |
| Veolia Environnement (Multi-Utilities)[(a)] | 90,000 | 3,369,048 |
| **Germany–2.17%** | | |
| E.ON A.G. (Electric Utilities)[(a)] | 50,000 | 4,438,837 |
| **Italy–3.21%** | | |
| Enel S.p.A. (Electric Utilities)[(a)] | 410,000 | 3,578,099 |
| Telecom Italia S.p.A. (Integrated Telecommunication Services)[(a)] | 350,022 | 905,407 |
| Terna S.p.A. (Electric Utilities)[(a)] | 800,000 | 2,070,992 |
| | | 6,554,498 |
| **Spain–1.88%** | | |
| Endesa, S.A. (Electric Utilities)[(a)] | 85,000 | 1,975,864 |
| Telefonica, S.A. (Integrated Telecommunication Services)[(a)] | 114,400 | 1,866,357 |
| | | 3,842,221 |
| **United Kingdom–4.22%** | | |
| Centrica PLC (Gas Utilities)[(a)] | 600,000 | 2,484,592 |
| National Grid Transco PLC (Multi-Utilities)[(a)] | 330,000 | 3,189,481 |
| Vodafone Group PLC (Wireless Telecommunication Services)[(a)] | 803,526 | 1,953,583 |
| Vodafone Group PLC–ADR (Wireless Telecommunication Services) | 40,600 | 987,392 |
| | | 8,615,048 |
| Total Foreign Stocks & Other Equity Interests (Cost $24,016,699) | | 26,819,652 |

| | Principal Amount | |
|---|---|---|
| **Bonds & Notes–0.15%** | | |
| **Electric Utilities–0.10%** | | |
| AmerenEnergy Generating Co.–Series C, Sr. Unsec. Global Notes, 7.75%, 11/01/05[(b)] | $100,000 | 101,234 |
| Kansas City Power & Light Co., Sr. Unsec. Notes, 7.13%, 12/15/05[(b)] | 100,000 | 101,391 |
| | | 202,625 |

| | Principal Amount | Market Value |
|---|---|---|
| **Integrated Telecommunication Services–0.05%** | | |
| British Telecommunications PLC (United Kingdom), Global Notes, 7.88%, 12/15/05[(b)] | $100,000 | $ 101,827 |
| Total Bonds & Notes (Cost $305,882) | | 304,452 |
| | **Shares** | |
| **Money Market Funds–6.87%** | | |
| Premier Portfolio–Institutional Class (Cost $14,030,007)[(c)] | 14,030,007 | 14,030,007 |
| TOTAL INVESTMENTS–100.26% (Cost $163,959,778) | | 204,719,393 |
| OTHER ASSETS LESS LIABILITIES–(0.26%) | | (532,341) |
| NET ASSETS–100.00% | | $ 204,187,052 |

Investment Abbreviations:

ADR – American Depositary Receipt
Sr. – Senior
Unsec. – Unsecured

Notes to Schedule of Investments:

(a) In accordance with the procedures established by the Board of Trustees, the foreign security is fair valued using adjusted closing market prices. The aggregate market value of these securities at June 30, 2005 was $25,832,260, which represented 12.62% the Fund's Total Investments. See Note 1A.

(b) In accordance with the procedures established by the Board of Trustees, security fair valued based on an evaluated quote provided by an independent pricing service. The aggregate market value of these securities at June 30, 2005 was $304,452, which represented 0.15% of the Fund's Total Investments. See Note 1A.

(c) The money market fund and the Fund are affiliated by having the same investment advisor. See Note 3.

See accompanying notes which are an integral part of the financial statements.

## Statement of Assets and Liabilities

*June 30, 2005*
*(Unaudited)*

| | |
|---|---|
| **Assets:** | |
| Investments, at market value (cost $149,929,771) | $190,689,386 |
| Investments in affiliated money market funds (cost $14,030,007) | 14,030,007 |
| Total investments (cost $163,959,778) | 204,719,393 |
| Receivables for: | |
| Fund shares sold | 85,984 |
| Dividends and interest | 602,309 |
| Investments Matured (Note 7) | 32,358 |
| Investment for trustee deferred compensation and retirement plans | 41,076 |
| Total assets | 205,481,120 |
| **Liabilities:** | |
| Payables for: | |
| Fund shares reacquired | 1,005,740 |
| Trustee deferred compensation and retirement plans | 44,463 |
| Accrued administrative services fees | 217,637 |
| Accrued distribution fees-Series II | 391 |
| Accrued trustees' and officer's fees and benefits | 123 |
| Accrued operating expenses | 25,714 |
| Total liabilities | 1,294,068 |
| Net assets applicable to shares outstanding | $204,187,052 |
| **Net assets consist of:** | |
| Shares of beneficial interest | $165,583,223 |
| Undistributed net investment income | 5,148,476 |
| Undistributed net realized gain (loss) from investment securities and foreign currencies | (6,879,852) |
| Unrealized appreciation of investment securities and foreign currencies | 40,335,205 |
| | $204,187,052 |
| **Net Assets:** | |
| Series I | $203,522,012 |
| Series II | $ 665,040 |
| **Shares outstanding, $0.001 par value per share, unlimited number of shares authorized:** | |
| Series I | 11,809,333 |
| Series II | 38,720 |
| Series I: | |
| Net asset value per share | $ 17.23 |
| Series II: | |
| Net asset value per share | $ 17.18 |

## Statement of Operations

*For the six months ended June 30, 2005*
*(Unaudited)*

| | |
|---|---|
| **Investment income:** | |
| Dividends (net of foreign withholding tax of $87,150) | $ 3,322,072 |
| Dividends from affiliated money market funds | 102,517 |
| Interest | 4,712 |
| Total investment income | 3,429,301 |
| **Expenses:** | |
| Advisory fees | 553,115 |
| Administrative services fees | 247,692 |
| Custodian fees | 10,504 |
| Distribution fees–Series II | 767 |
| Transfer agent fees | 6,712 |
| Trustees' and officer's fees and benefits | 8,878 |
| Other | 33,829 |
| Total expenses | 861,497 |
| Less: Fees waived | (1,666) |
| Net expenses | 859,831 |
| Net investment income | 2,569,470 |
| **Realized and unrealized gain (loss) from investment securities and foreign currencies:** | |
| Net realized gain (loss) from: | |
| Investment securities | 3,377,456 |
| Foreign currencies | (5,409) |
| | 3,372,047 |
| Change in net unrealized appreciation (depreciation) of: | |
| Investment securities | 12,965,809 |
| Foreign currencies | (8,627) |
| | 12,957,182 |
| Net gain from investment securities and foreign currencies | 16,329,229 |
| Net increase in net assets resulting from operations | $18,898,699 |

See accompanying notes which are an integral part of the financial statements.

## Statement of Changes in Net Assets

*For the six months ended June 30, 2005 and the year ended December 31, 2004*
*(Unaudited)*

| | June 30, 2005 | December 31, 2004 |
|---|---|---|
| **Operations:** | | |
| Net investment income | $ 2,569,470 | $ 3,157,181 |
| Net realized gain from investment securities and foreign currencies | 3,372,047 | 4,136,977 |
| Change in net unrealized appreciation of investment securities and foreign currencies | 12,957,182 | 19,374,088 |
| Net increase in net assets resulting from operations | 18,898,699 | 26,668,246 |
| Less distributions to shareholders from net investment income–Series I | — | (1,790,572) |
| Share transactions–net: | | |
| Series I | 25,130,358 | 72,272,573 |
| Series II | 2,372 | 494,954 |
| Net increase in net assets resulting from share transactions | 25,132,730 | 72,767,527 |
| Net increase in net assets | 44,031,429 | 97,645,201 |
| **Net assets:** | | |
| Beginning of period | 160,155,623 | 62,510,422 |
| End of period (including undistributed net investment income of $5,148,476 and $2,579,006, respectively) | $204,187,052 | $160,155,623 |

See accompanying notes which are an integral part of the financial statements.

# Notes to Financial Statements

*June 30, 2005*
*(Unaudited)*

## NOTE 1—Significant Accounting Policies

AIM V.I. Utilities Fund, formerly INVESCO VIF-Utilities Fund, (the "Fund") is a series portfolio of AIM Variable Insurance Funds (the "Trust"). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end series management investment company consisting of twenty-eight separate portfolios. The Fund currently offers two classes of shares, Series I and Series II, both of which are offered to insurance company separate accounts funding variable annuity contracts and variable life insurance policies ("variable products"). Matters affecting each portfolio or class will be voted on exclusively by the shareholders of such portfolio or class. Current Securities and Exchange Commission ("SEC") guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each portfolio or class. The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund.

The Fund's investment objective is to seek capital growth and current income. Companies are listed in the Schedule of Investments based on the country in which they are organized.

Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including estimates and assumptions related to taxation. Actual results could differ from those estimates. The following is a summary of the significant accounting policies followed by the Fund in the preparation of its financial statements.

**A. Security Valuations** — Securities, including restricted securities, are valued according to the following policy.

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales on a particular day, the security is valued at the closing bid price on that day. Each security traded in the over-the-counter market (but not securities reported on the NASDAQ National Market System) is valued on the basis of prices furnished by independent pricing services, which may be considered fair valued, or market makers. Each security reported on the NASDAQ National Market System is valued at the NASDAQ Official Closing Price ("NOCP") as of the close of the customary trading session on the valuation date or absent a NOCP, at the closing bid price.

Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and the ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent source at the mean between the last bid and ask prices. For purposes of determining net asset value per share, futures and option contracts generally will be valued 15 minutes after the close of the customary trading session of the New York Stock Exchange ("NYSE").

Investments in open-end registered investment companies and closed-end registered investment companies that do not trade on an exchange are valued at the end of day net asset value per share. Investments in closed-end registered investment companies that trade on an exchange are valued at the last sales price as of the close of the customary trading session on the exchange where the security is principally traded.

Debt obligations (including convertible bonds) are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term obligations having 60 days or less to maturity and commercial paper are valued at amortized cost which approximates market value.

Securities for which market prices are not provided by any of the above methods are valued based upon quotes furnished by independent sources and are valued at the last bid price in the case of equity securities and in the case of debt obligations, the mean between the last bid and asked prices.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the NYSE. Generally, trading in foreign securities is substantially completed each day at various times prior to the close of the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of the close of the respective markets. Events affecting the values of such foreign securities may occur between the times at which the particular foreign market closes and the close of the customary trading session of the NYSE which would not ordinarily be reflected in the computation of the Fund's net asset value. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current market value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current market value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, ADRs and domestic and foreign index futures.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security's fair value.

**B. Securities Transactions and Investment Income** — Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Interest income is recorded on the accrual basis from settlement date. Dividend income is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the realized and unrealized net gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Fund's net asset value and, accordingly, they reduce the Fund's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and Statement of Changes in Net Assets, or the net investment income per share and ratios of expenses and net investment income reported in the Financial Highlights, nor are they limited by any expense limitation arrangements between the Fund and the advisor.

The Fund allocates income and realized and unrealized capital gains and losses to a class based on the relative net assets of each class.

**C. Distributions** — Distributions from income and net realized capital gain, if any, are generally paid to separate accounts of participating insurance companies annually and recorded on ex-dividend date.

**D. Federal Income Taxes** — The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) which is distributed to shareholders. Therefore, no provision for federal income taxes is recorded in the financial statements.

**E. Expenses** — Fees provided for under the Rule 12b-1 plan of a particular class of the Fund and which are directly attributable to that class are charged to the operations of such class. All other expenses are allocated among the classes based on relative net assets.

**F. Foreign Currency Translations** — Foreign currency is valued at the close of the NYSE based on quotations posted by banks and major currency dealers. Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at date of valuation. Purchases and sales of portfolio securities (net of foreign taxes withheld on disposition) and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for the portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. The combined results of changes in foreign exchange rates and the fluctuation of market prices on investments (net of estimated foreign tax withholding) are included with the net realized and unrealized gain or loss from investments in the Statement of Operations. Reported net realized foreign currency gains or losses arise from (i) sales of foreign currencies, (ii) currency gains or losses realized between the trade and settlement dates on securities transactions, and (iii) the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign currency gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

**G. Foreign Currency Contracts** — A foreign currency contract is an obligation to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund may enter into a foreign currency contract to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. The Fund may also enter into a foreign currency contract for the purchase or sale of a security denominated in a foreign currency in order to "lock in" the U.S. dollar price of that security. The Fund could be exposed to risk if counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

## NOTE 2—Advisory Fees and Other Fees Paid to Affiliates

The Trust has entered into a master investment advisory agreement with A I M Advisors, Inc. ("AIM"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to AIM at the annual rate of 0.60% of the Fund's average daily net assets.

AIM has contractually agreed to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual operating expenses (excluding certain items discussed below) of Series I shares to 1.30% and Series II shares to 1.45% of average daily net assets, through April 30, 2006. In determining the advisor's obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses to exceed the limit stated above: (i) interest; (ii) taxes; (iii) dividend expense on short sales; (iv) extraordinary items (these are expenses that are not anticipated to arise from the Fund's day-to-day operations), or items designated as such by the Fund's Board of Trustees; (v) expenses related to a merger or reorganization, as approved by the Fund's Board of Trustees; and (vi) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Currently, in addition to the expense reimbursement arrangement with AMVESCAP PLC ("AMVESCAP") described more fully below, the expense offset arrangements from which the Fund may benefit are in the form of credits that the Fund receives from banks where the Fund or its transfer agent has deposit accounts in which it holds uninvested cash. Those credits are used to pay certain expenses incurred by the Fund. To the extent that the annualized expense ratio does not exceed the expense limitation, AIM will retain its ability to be reimbursed for such fee waivers or reimbursements prior to the end of each fiscal year. AIM did not waive fees and/or reimburse expenses during the period under this expense limitation.

Further, AIM has voluntarily agreed to waive advisory fees of the Fund in the amount of 25% of the advisory fee AIM receives from the affiliated money market funds on investments by the Fund in such affiliated money market funds. AIM is also voluntarily waiving a portion of the advisory fee payable by the Fund equal to the difference between the income earned from investing in the affiliated money market fund and the hypothetical income earned from investing in an appropriate comparative benchmark. Voluntary fee waivers or reimbursements may be modified or discontinued at any time upon consultation with the Board of Trustees without further notice to investors.

For the six months ended June 30, 2005, AIM waived fees of $1,666.

At the request of the Trustees of the Trust, AMVESCAP agreed to reimburse expenses incurred by the Fund in connection with market timing matters in the AIM Funds, which may include legal, audit, shareholder reporting, communications and trustee expenses. For the six months ended June 30, 2005, AMVESCAP's expense reimbursement was less than $100.

The Fund, pursuant to a master administrative services agreement with AIM, has agreed to pay AIM a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse AIM for administrative services fees paid to insurance companies that have agreed to provide services to the participants of separate accounts. These administrative services provided by the insurance companies may include, among other things: the printing of prospectuses, financial reports and proxy statements and the delivery of the same to existing participants; the maintenance of master accounts; the facilitation of purchases and redemptions requested by participants; and the servicing of participants' accounts. Pursuant to such agreement, for the six months ended June 30, 2005, AIM was paid $24,795 for accounting and fund administrative services and reimbursed $222,897 for services provided by insurance companies.

The Fund, pursuant to a transfer agency and service agreement, has agreed to pay AIM Investment Services, Inc. ("AISI") a fee for providing transfer agency and shareholder services to the Fund and reimburse AISI for certain expenses incurred by AISI in the course of providing such services. For the six months ended June 30, 2005, the Fund paid AISI $6,712.

The Trust has entered into a master distribution agreement with A I M Distributors, Inc. ("ADI") to serve as the distributor for the Fund. The Trust has adopted a plan pursuant to Rule 12b-1 under the 1940 Act with respect to the Fund's Series II shares (the "Plan"). The Fund, pursuant to the Plan, pays ADI compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of this amount, up to 0.25% of the average daily net assets of the Series II shares may be paid to insurance companies who furnish continuing personal shareholder services to customers who purchase and own Series II shares of the Fund. Pursuant to the Plan, for the six months ended June 30, 2005, the Series II shares paid $767.

Certain officers and trustees of the Trust are also officers and directors of AIM, AISI and/or ADI.

## NOTE 3—Investments in Affiliates

The Fund is permitted, pursuant to an exemptive order from the SEC and approved procedures by the Board of Trustees, to invest daily available cash balances in affiliated money market funds. The Fund and the money market fund below have the same investment advisor and therefore, are considered to be affiliated. The table below shows the transactions in and earnings from investments in an affiliated money market fund for the six months ended June 30, 2005.

| Fund | Market Value 12/31/04 | Purchases at Cost | Proceeds from Sales | Unrealized Appreciation (Depreciation) | Market Value 06/30/05 | Dividend Income | Realized Gain (Loss) |
|---|---|---|---|---|---|---|---|
| Premier Portfolio—Institutional Class | $6,951,654 | $56,987,939 | $(49,909,586) | $ — | $14,030,007 | $102,517 | $ — |

## NOTE 4—Trustees' and Officer's Fees and Benefits

"Trustees' and Officer's Fees and Benefits" include amounts accrued by the Fund to pay remuneration to each Trustee of the Fund who is not an "interested person" of the AIM Funds. Trustees have the option to defer compensation payable by the Fund, and "Trustees' and Officer's Fees and Benefits" also include amounts accrued by the Fund to fund such deferred compensation amounts. Those Trustees who defer compensation have the option to select various AIM Funds in which their deferral accounts shall be deemed to be invested. Finally, current Trustees are eligible to participate in a retirement plan that provides for benefits to be paid upon retirement to Trustees over a period of time based on the number of years of service. The Fund may have certain former Trustees who also participate in a retirement plan and receive benefits under such plan. "Trustees' and Officer's Fees and Benefits" include amounts accrued by the Fund to fund such retirement benefits. Obligations under the deferred compensation and retirement plans represent unsecured claims against the general assets of the Fund.

In addition to the above, "Trustees' and Officer's Fees and Benefits" include amounts accrued by the Fund to pay remuneration to the Senior Officer of the AIM Funds.

During the six months ended June 30, 2005, the Fund paid legal fees of $2,285 for services rendered by Kramer, Levin, Naftalis & Frankel LLP as counsel to the Independent Trustees. A member of that firm is a Trustee of the Trust.

## NOTE 5—Borrowings

Pursuant to an exemptive order from the SEC, the Fund may participate in an interfund lending facility that AIM has established for temporary borrowings by the AIM Funds. An interfund loan will be made under this facility only if the loan rate (an average of the rate available on bank loans and the rate available on investments in overnight repurchase agreements) is favorable to both the lending fund and the borrowing fund. A loan will be secured by collateral if the Fund's aggregate borrowings from all sources exceeds 10% of the Fund's total assets. To the extent that the loan is required to be secured by collateral, the collateral is marked to market daily to ensure that the market value is at least 102% of the outstanding principal value of the loan.

The Fund is a participant in an uncommitted unsecured revolving credit facility with State Street Bank and Trust Company ("SSB"). The Fund may borrow up to the lesser of (i) $125,000,000, or (ii) the limits set by its prospectus for borrowings. The Fund and other funds advised by AIM which are parties to the credit facility can borrow on a first come, first served basis. Principal on each loan outstanding shall bear interest at the bid rate quoted by SSB at the time of the request for the loan.

During the six months ended June 30, 2005, the Fund did not borrow or lend under the interfund lending facility or borrow under the uncommitted unsecured revolving credit facility.

Additionally, the Fund is permitted to temporarily carry a negative or overdrawn balance in its account with SSB, the custodian bank. To compensate the custodian bank for such overdrafts, the overdrawn Fund may either (i) leave funds in the account so the custodian can be compensated by earning the additional interest; or (ii) compensate by paying the custodian bank. In either case, the custodian bank will be compensated at an amount equal to the Federal Funds rate plus 100 basis points.

## NOTE 6—Tax Information

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryforward) under income tax regulations. The tax character of distributions paid during the year and the tax components of net assets will be reported at the Fund's fiscal year-end.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. The ability to utilize capital loss carryforward in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions. Under these limitation rules, the Fund is limited as of December 31, 2004 to utilizing $5,603,621 of capital loss carryforward in the fiscal year ended December 31, 2005.

The Fund had a capital loss carryforward as of December 31, 2004 which expires as follows:

| Expiration | Capital Loss Carryforward* |
|---|---|
| December 31, 2008 | $1,361,470 |
| December 31, 2009 | 7,920,722 |
| Total capital loss carryforward | $9,282,192 |

* Capital loss carryforward as of the date listed above is reduced for limitations, if any, to the extent required by the Internal Revenue Code.

## NOTE 7—Investment Securities

The aggregate amount of investment securities (other than short-term securities and money market funds) purchased and sold by the Fund during the six months ended June 30, 2005 was $46,027,921 and $24,919,776, respectively. For interim reporting periods, the cost of investments for tax purposes includes reversals of certain tax items, such as, wash sales that have occurred since the prior fiscal year-end.

Receivable for investments matured represents the estimated proceeds to the Fund by Candescent Technologies Corp., which is in default with respect to the principal payments on $20,233,000 par value, Senior Unsecured Guaranteed Subordinated Debentures, 8.00%, which was due May 1, 2003. This estimate was determined in accordance with the fair valuation procedures authorized by the Board of Trustees. Unrealized appreciation (depreciation) at June 30, 2005 was $(419,349).

At the request of the Trustees, AIM recovered third party research credits during the six months ended June 30, 2005, in the amount of $16,098. These research credits were recorded as realized gains.

**Unrealized Appreciation (Depreciation) of Investment Securities on a Tax Basis**

| | |
|---|---|
| Aggregate unrealized appreciation of investment securities | $40,319,143 |
| Aggregate unrealized (depreciation) of investment securities | (213,267) |
| Net unrealized appreciation of investment securities | $40,105,876 |

Cost of investments for tax purposes is $164,613,517.

## NOTE 8—Share Information

**Changes in Shares Outstanding[a]**

| | Six months ended June 30, 2005 | | Year ended December 31, 2004 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Sold: | | | | |
| Series I | 4,453,105 | $ 70,946,039 | 7,260,883 | $ 98,809,827 |
| Series II[b] | 33,154 | 506,603 | 9,123 | 123,917 |
| Issued as reinvestment of dividends: | | | | |
| Series I | — | — | 141,547 | 1,790,572 |
| Issued in connection with acquisitions:[c] | | | | |
| Series I | — | — | 1,651,306 | 20,891,460 |
| Series II[b] | — | — | 35,261 | 445,966 |
| Reacquired: | | | | |
| Series I | (2,866,698) | (45,815,681) | (3,656,840) | (49,219,286) |
| Series II[b] | (33,076) | (504,231) | (5,742) | (74,929) |
| | 1,586,485 | $ 25,132,730 | 5,435,538 | $ 72,767,527 |

[a] There are four entities that are each record owners of more than 5% of the outstanding shares of the Fund and in the aggregate they own 75% of the outstanding shares of the Fund. The Fund and the Fund's principle underwriter or advisor are parties to participation agreements with these entities whereby these entities sell units of interest in separate accounts funding variable products that are invested in the Fund. The Fund, AIM and/or AIM affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, AIM and/or AIM affiliates including but not limited to services such as, securities brokerage, third party record keeping and account servicing and administrative services. The Trust has no knowledge as to whether all or any portion of the shares owned of record by these shareholders are also owned beneficially.

[b] Series II shares commenced sales on April 30, 2004.

[c] As of the opening of business on April 30, 2004, the Fund acquired all the net assets of AIM V.I. Global Utilities Fund pursuant to a plan of reorganization approved by the Trustees of the Fund on December 9, 2003 and AIM V.I. Global Utilities Fund shareholders on April 2, 2004. The acquisition was accomplished by a tax free exchange of 1,686,567 shares of the Fund for 1,960,982 shares of AIM V.I. Global Utilities Fund outstanding as of the close of business on April 29, 2004. AIM V.I. Global Utilities Fund's net assets at that date of $21,337,426, including $1,651,275 of unrealized appreciation, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $69,390,372.

## NOTE 9—Financial Highlights

The following schedule presents financial highlights for a share of the Fund outstanding throughout the periods indicated.

| | Series I | | | | | |
|---|---|---|---|---|---|---|
| | Six months ended June 30, 2005 | Year ended December 31, 2004 | 2003 | 2002 | 2001 | 2000 |
| Net asset value, beginning of period | $ 15.61 | $ 12.95 | $ 11.16 | $ 14.08 | $ 21.06 | $ 20.97 |
| Income from investment operations: | | | | | | |
| Net investment income | 0.22[(a)] | 0.42[(a)] | 0.33[(a)] | 0.19 | 0.00 | 0.17 |
| Net gains (losses) on securities (both realized and unrealized) | 1.40 | 2.57 | 1.60 | (3.05) | (6.83) | 0.87 |
| Total from investment operations | 1.62 | 2.99 | 1.93 | (2.86) | (6.83) | 1.04 |
| Less distributions: | | | | | | |
| Dividends from net investment income | — | (0.33) | (0.14) | (0.06) | (0.07) | (0.03) |
| Distributions from net realized gains | — | — | — | — | (0.08) | (0.92) |
| Total distributions | — | (0.33) | (0.14) | (0.06) | (0.15) | (0.95) |
| Net asset value, end of period | $ 17.23 | $ 15.61 | $ 12.95 | $ 11.16 | $ 14.08 | $ 21.06 |
| Total return[(b)] | 10.38% | 23.65% | 17.38% | (20.32)% | (32.41)% | 5.28% |
| Ratios/supplemental data: | | | | | | |
| Net assets, end of period (000s omitted) | $203,522 | $159,554 | $62,510 | $31,204 | $20,947 | $12,300 |
| Ratio of expenses to average net assets | 0.93%[(c)] | 1.01% | 1.08% | 1.15% | 1.15% | 1.22% |
| Ratio of net investment income to average net assets | 2.79%[(c)] | 3.09% | 2.84% | 2.59% | 1.13% | 0.94% |
| Portfolio turnover rate[(d)] | 14% | 52% | 58% | 102% | 33% | 50% |

(a) Calculated using average shares outstanding.
(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America, and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns are not annualized for periods less than one year and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
(c) Ratios are annualized and based on average daily net assets of $185,281,037.
(d) Not annualized for periods less than one year.

| | Series II | |
|---|---|---|
| | Six months ended June 30, 2005 | April 30, 2004 (Date sales commenced) to December 31, 2004 |
| Net asset value, beginning of period | $15.57 | $12.63 |
| Income from investment operations: | | |
| Net investment income | 0.20[(a)] | 0.26[(a)] |
| Net gains on securities (both realized and unrealized) | 1.41 | 2.68 |
| Total from investment operations | 1.61 | 2.94 |
| Net asset value, end of period | $17.18 | $15.57 |
| Total return[(b)] | 10.34% | 23.28% |
| Ratios/supplemental data: | | |
| Net assets, end of period (000s omitted) | $ 665 | $ 602 |
| Ratio of expenses to average net assets | 1.18%[(c)] | 1.28%[(d)] |
| Ratio of net investment income to average net assets | 2.54%[(c)] | 2.82%[(d)] |
| Portfolio turnover rate[(e)] | 14% | 52% |

(a) Calculated using average shares outstanding.
(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America, and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns are not annualized for periods less than one year and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
(c) Ratios are annualized and based on average daily net assets of $618,509.
(d) Annualized.
(e) Not annualized for periods less than one year.

## NOTE 10—Subsequent Event

A significant shareholder of the Fund has filed an application for an SEC substitution order and notified AIM of their intent to substitute their investment selection in the Fund with another fund. It is anticipated that this substitution will occur in September 2005 and will result in a significant redemption of Fund shares. The market value of the accounts anticipated to be redeemed were 54% of the Fund's net assets as of June 30, 2005. To the extent that the redemption occurs, AIM currently intends to settle the transaction with a pro rata redemption-in-kind.

## NOTE 11—Legal Proceedings

*Terms used in the Legal Proceedings Note are defined terms solely for the purpose of this note.*

### Settled Enforcement Actions and Investigations Related to Market Timing

On October 8, 2004, INVESCO Funds Group, Inc. ("IFG") (the former investment advisor to certain AIM Funds), AIM and A I M Distributors, Inc. ("ADI") (the distributor of the retail AIM Funds) reached final settlements with certain regulators, including the Securities and Exchange Commission ("SEC"), the New York Attorney General and the Colorado Attorney General, to resolve civil enforcement actions and/or investigations related to market timing and related activity in the AIM Funds, including those formerly advised by IFG. As part of the settlements, a $325 million fair fund ($110 million of which is civil penalties) is being created to compensate shareholders harmed by market timing and related activity in funds formerly advised by IFG. Additionally, AIM and ADI agreed to create a $50 million fair fund ($30 million of which is civil penalties) to compensate shareholders harmed by market timing and related activity in funds advised by AIM. These two fair funds may increase as a result of contributions from third parties who reach final settlements with the SEC or other regulators to resolve allegations of market timing and/or late trading that also may have harmed applicable AIM Funds. These two fair funds will be distributed in accordance with a methodology to be determined by AIM's independent distribution consultant, in consultation with AIM and the independent trustees of the AIM Funds and acceptable to the staff of the SEC. As the methodology is unknown at the present time, management of AIM and the Fund are unable to estimate the impact, if any, that the distribution of these two fair funds may have on the Fund or whether such distribution will have an impact on the Fund's financial statements in the future.

At the request of the trustees of the AIM Funds, AMVESCAP PLC ("AMVESCAP"), the parent company of IFG and AIM, has agreed to reimburse expenses incurred by the AIM Funds related to market timing matters.

### Regulatory Inquiries and Pending Litigation

IFG, AIM, ADI and/or related entities and individuals have received inquiries from numerous regulators in the form of subpoenas or other oral or written requests for information and/or documents related to one or more of the following issues, some of which concern one or more AIM Funds: market timing activity, late trading, fair value pricing, excessive or improper advisory and/or distribution fees, mutual fund sales practices, including revenue sharing and directed-brokerage arrangements, investments in securities of other registered investment companies, contractual plans, issues related to Section 529 college savings plans and procedures for locating lost securityholders. IFG, AIM and ADI are providing full cooperation with respect to these inquiries. As described more fully below, the AIM Funds, IFG, AIM, ADI and/or related entities and individuals are defendants in numerous civil lawsuits related to one or more of these issues. Regulatory actions and/or additional civil lawsuits related to these or other issues may be filed against the AIM Funds, IFG, AIM and/or related entities and individuals in the future.

On April 12, 2005, the Attorney General of the State of West Virginia ("WVAG") filed a civil lawsuit against AIM, IFG and ADI, as well as numerous unrelated mutual fund complexes and financial institutions. None of the AIM Funds has been named as a defendant in this lawsuit. The WVAG complaint, filed in the Circuit Court of Marshall County, West Virginia [Civil Action No. 05-C-81], alleges, in substance, that AIM, IFG and ADI engaged in unfair competition and/or unfair or deceptive trade practices by failing to disclose in the prospectuses for the AIM Funds, including those formerly advised by IFG, that they had entered into certain arrangements permitting market timing of such Funds. As a result of the foregoing, the WVAG alleges violations of W. Va. Code § 46A-1-101, et seq. (the West Virginia Consumer Credit and Protection Act). The WVAG complaint is seeking, among other things, injunctive relief, civil monetary penalties and a writ of quo warranto against the defendants. If AIM is unsuccessful in its defense of the WVAG lawsuit, it could be barred from serving as an investment advisor for any investment company registered under the Investment Company Act of 1940, as amended (a "registered investment company"). Such results could affect the ability of AIM or any other investment advisor directly or indirectly owned by AMVESCAP, from serving as an investment advisor to any registered investment company, including the Fund. The Fund has been informed by AIM that, if these results occur, AIM will seek exemptive relief from the SEC to permit it to continue to serve as the Fund's investment advisor. There is no assurance that such exemptive relief will be granted. On July 7, 2005, the Supreme Court of West Virginia ruled in the context of a separate lawsuit that the WVAG does not have authority pursuant to W. Va. Code Section 46A-6-104 of the West Virginia Consumer Credit and Protection Act to bring an action based upon conduct that is ancillary to the purchase or sale of securities. AIM intends to seek dismissal of the WVAG's lawsuit against it, IFG and ADI in light of this ruling.

Civil lawsuits, including purported class action and shareholder derivative suits, have been filed against certain of the AIM Funds, IFG, AIM, ADI and/or related entities and individuals, depending on the lawsuit, alleging:

- that the defendants permitted improper market timing and related activity in the AIM Funds;
- that certain AIM Funds inadequately employed fair value pricing;
- that the defendants charged excessive advisory and/or distribution fees and failed to pass on to shareholders the perceived savings generated by economies of scale and that the defendants adopted unlawful distribution plans;
- that the defendants breached their fiduciary duties by charging distribution fees while AIM Funds and/or specific share classes were closed generally to new investors and/or while other share classes of the same AIM Fund were not charged the same distribution fees;
- that the defendants improperly used the assets of the AIM Funds to pay brokers to aggressively promote the sale of the AIM Funds over other mutual funds and that the defendants concealed such payments from investors by disguising them as brokerage commissions; and

### NOTE 11—Legal Proceedings–continued

- that the defendants breached their fiduciary duties by failing to ensure that the AIM Funds participated in class action settlements in which they were eligible to participate.

These lawsuits allege as theories of recovery, depending on the lawsuit, violations of various provisions of the Federal and state securities laws and ERISA, negligence, breach of fiduciary duty and/or breach of contract. These lawsuits seek remedies that include, depending on the lawsuit, damages, restitution, injunctive relief, imposition of a constructive trust, removal of certain directors and/or employees, various corrective measures under ERISA, rescission of certain AIM Funds' advisory agreements and/or distribution plans and recovery of all fees paid, an accounting of all fund-related fees, commissions and soft dollar payments, restitution of all commissions and fees paid, and prospective relief in the form of reduced fees.

At the present time, management of AIM and the Fund are unable to estimate the impact, if any, that the outcome of the Regulatory Inquiries and Pending Litigation described above may have on AIM, ADI or the Fund.

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As a result of the matters discussed above, investors in the AIM Funds might react by redeeming their investments. This might require the AIM Funds to sell investments to provide for sufficient liquidity and could also have an adverse effect on the investment performance of the AIM Funds.

# Trustees and Officers



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# The Alger American Fund

**Alger American**
**Balanced Portfolio**

## Semi-Annual Report

**June 30, 2005**

**(Unaudited)**

# Table Of Contents

# Dear Shareholders,

**July 29, 2005**

The first six months of 2005 saw the markets treading water, stuck in a narrow trading range. Yet, corporations are generating impressive earnings, and the economy continues to grow at a healthy rate. Corporate earnings year-to-date, while slower than the torrid pace of 2004, have surprised on the upside. First quarter earnings grew at an average of more than 13% and second quarter growth could be in the range of 10%.

However, many investors seem to believe that earnings growth will soon slow sharply. We disagree and think that earnings can continue to surprise on the upside for quite some time. Companies are benefiting not just from the continued efficiencies and productivity enhancement of information technology, but from robust global growth, especially in emerging economies such as China.

The importance of international growth is clearly increasing. In 2004, 101 companies listed on the S&P 500 Index derived 20-40% of their revenues outside of the U.S. Another 100 derived 40-60%. And there appears to be a connection between international exposure, earnings, and stock performance. The "sweet spot" is those companies that fall in the 20-40% range. In 2004, they had earnings growth of 42% and their stock gained 19% on average. That is nearly double what the S&P 500 Index gained.

Overall, the trend is clearly one of profit growth that is significantly stronger than either wage growth or GDP growth. Stocks, however, have not reflected the strength of corporate earnings, with the result that valuations have contracted even as earnings have expanded.

The longer this trend continues, the cheaper stocks become relative to their potential rate of future return. Regardless of one's appetite for equities, we believe that we are in the early stages of another "age of capital." The term was first used to describe the later part of the 19th century in the United States and in England. Then, a few dominant companies and financial institutions did well, and labor struggled to get a fair slice of the pie. Today, companies are again capturing a disproportionate share of the gains, and not just large multinationals, but thousands of smaller and mid-sized companies that can use information technologies and low trade barriers to compete and conduct business internationally.

We see little to alter this trend in the coming years. That may continue to pose challenges to labor. But the real losers here are national economies, which are, after all, only markets for global companies. Those companies have no allegiance to any one country, even if their executives do. Rather than do what is best for a country, companies will go where the growth is and do what is necessary to minimize costs and maximize profits. More than ever before, they will carefully choose where and how they operate. As a result, the most competitive and successful companies should grow much faster than any one region or any one economy.

Finally, we want to thank you for the confidence you have placed in Alger. It is our goal not only to find the best investments for you, but also to continue to earn your trust in every aspect of our business.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

# The Alger American Fund
# Alger American Balanced Portfolio
# Shareholder Expense Example (Unaudited)

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting January 1, 2005 and ending June 30, 2005.

**Actual Expenses**

The first line for each class of shares in the table below 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 would have 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 the Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

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

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

| | | Beginning Account Value January 1, 2005 | Ending Account Value June 30, 2005 | Expenses Paid During the Period January 1, 2005 to June 30, 2005(b) | Ratio of Expenses to Average Net Assets For the Six Months Ended June 30, 2005(c) |
|---|---|---|---|---|---|
| **Class O** | **Actual** | $1,000.00 | $1,014.40 | $4.05 | 0.81% |
| | **Hypothetical(a)** | 1,000.00 | 1,020.78 | 4.06 | 0.81 |
| **Class S** | **Actual** | 1,000.00 | 1,012.70 | 5.29 | 1.06 |
| | **Hypothetical(a)** | 1,000.00 | 1,019.54 | 5.31 | 1.06 |

(a) 5% annual return before expenses.
(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).
(c) Annualized.

## The Alger American Fund
## Alger American Balanced Portfolio
## Portfolio Summary* (Unaudited)

| Sectors/Security Types | |
|---|---|
| Consumer Discretionary | 14.1% |
| Consumer Staples | 4.7 |
| Energy | 7.6 |
| Financials | 3.3 |
| Health Care | 17.6 |
| Industrials | 4.4 |
| Information Technology | 11.1 |
| Telecommunications Services | 1.7 |
| Total Common Stocks | 64.5 |
| Corporate Obligations | 14.1 |
| U.S. Agency Obligations | 8.7 |
| U.S. Treasury Obligations | 9.5 |
| Total Obligations | 32.3 |
| Cash and Net Other Assets | 3.2 |
| | 100.0% |

* Based on net assets.

# The Alger American Fund
# Alger American Balanced Portfolio
# Schedule of Investments—June 30, 2005 (Unaudited)

| Shares | COMMON STOCKS—64.5% | Value |
|---|---|---|
| | **AEROSPACE & DEFENSE—1.7%** | |
| 33,700 | Boeing Company | $ 2,224,200 |
| 31,100 | General Dynamics Corporation | 3,406,694 |
| | | 5,630,894 |
| | **BEVERAGES—.8%** | |
| 49,250 | PepsiCo, Inc. | 2,656,053 |
| | **BIOTECHNOLOGY—2.2%** | |
| 61,300 | Amgen Inc.* | 3,706,198 |
| 44,800 | Genentech, Inc.* | 3,596,544 |
| | | 7,302,742 |
| | **BUILDING & CONSTRUCTION—1.0%** | |
| 38,900 | Pulte Homes Inc. | 3,277,325 |
| | **CAPITAL MARKETS—.7%** | |
| 39,700 | Merrill Lynch & Co., Inc. | 2,183,897 |
| | **COMMUNICATION EQUIPMENT—1.0%** | |
| 93,600 | Corning Incorporated* | 1,555,632 |
| 110,300 | Nokia Oyj ADR# | 1,835,392 |
| | | 3,391,024 |
| | **COMMUNICATION TECHNOLOGY—.5%** | |
| 65,000 | Nextel Partners, Inc. Cl. A* | 1,636,050 |
| | **COMPUTERS & PERIPHERALS—2.3%** | |
| 165,000 | Apple Computer, Inc.* | 6,073,650 |
| 116,100 | EMC Corporation* | 1,591,731 |
| | | 7,665,381 |
| | **CONSUMER PRODUCTS—1.0%** | |
| 119,100 | Eastman Kodak Company | 3,197,835 |
| | **DIVERSIFIED FINANCIAL SERVICES—1.1%** | |
| 46,350 | Franklin Resources, Inc. | 3,568,023 |
| | **ELECTRICAL EQUIPMENT—.6%** | |
| 37,200 | Rockwell Automation, Inc. | 1,812,012 |
| | **ENERGY EQUIPMENT & SERVICES—3.6%** | |
| 71,100 | National-Oilwell Varco Inc.* | 3,380,094 |
| 41,600 | Suncor Energy, Inc. | 1,968,512 |
| 64,000 | Transocean Inc.* | 3,454,080 |
| 153,400 | Williams Companies, Inc. (The) | 2,914,600 |
| | | 11,717,286 |
| | **FINANCIAL INFORMATION SERVICES—.4%** | |
| 44,300 | Genworth Financial Inc. Cl. A | 1,339,189 |
| | **FOOD & BEVERAGES—.6%** | |
| 37,800 | Yum! Brands, Inc. | 1,968,624 |

| Shares | | Value |
|---|---|---|
| | **FOOD & STAPLES RETAILING—1.5%** | |
| 114,200 | CVS Corporation | $ 3,319,794 |
| 34,350 | Wal-Mart Stores, Inc. | 1,655,670 |
| | | 4,975,464 |
| | **HEALTH CARE EQUIPMENT & SUPPLIES*—1.8%** | |
| 15,700 | Beckman Coulter, Inc. | 998,049 |
| 52,600 | Medtronic, Inc. | 2,724,154 |
| 27,200 | St. Jude Medical, Inc.* | 1,186,192 |
| 31,600 | Varian Medical Systems, Inc.* | 1,179,628 |
| | | 6,088,023 |
| | **HEALTH CARE PROVIDERS & SERVICES—7.9%** | |
| 25,100 | AmerisourceBergen Corporation | 1,735,665 |
| 74,400 | Caremark Rx, Inc.* | 3,312,288 |
| 45,200 | CIGNA Corporation | 4,837,756 |
| 121,600 | HCA, Inc. | 6,891,072 |
| 127,600 | Health Management Associates, Inc. Cl. A | 3,340,568 |
| 54,400 | Humana Inc.* | 2,161,856 |
| 32,400 | Medco Health Solutions, Inc.* | 1,728,864 |
| 31,200 | PacifiCare Health Systems, Inc.* | 2,229,240 |
| | | 26,237,309 |
| | **HOTELS, RESTAURANTS & LEISURE—1.6%** | |
| 45,500 | Harrah's Entertainment, Inc. | 3,279,185 |
| 87,800 | Hilton Hotels Corporation | 2,094,030 |
| | | 5,373,215 |
| | **INDUSTRIAL CONGLOMERATES—1.3%** | |
| 152,000 | Tyco International Ltd. | 4,438,400 |
| | **INSURANCE—1.1%** | |
| 26,100 | American International Group, Inc. | 1,516,410 |
| 56,400 | St. Paul Travelers Companies, Inc. (The) | 2,229,492 |
| | | 3,745,902 |
| | **INTERNET & CATALOG RETAIL—1.9%** | |
| 103,600 | eBay Inc.* | 3,419,836 |
| 166,500 | Netflix Inc.* | 2,732,265 |
| | | 6,152,101 |
| | **INTERNET SOFTWARE & SERVICES—2.3%** | |
| 13,200 | Google Inc. Cl. A* | 3,882,780 |
| 103,900 | Yahoo! Inc.* | 3,600,135 |
| | | 7,482,915 |
| | **MACHINERY—.8%** | |
| 27,500 | Caterpillar Inc. | 2,621,025 |

| Shares | COMMON STOCKS—(Cont'd) | Value |
|---|---|---|
| | **MEDIA—4.6%** | |
| 78,900 | Disney (Walt) Company | $ 1,986,702 |
| 230,100 | News Corporation Cl. A | 3,723,018 |
| 385,700 | Sirius Satellite Radio Inc.* | 2,499,336 |
| 209,950 | XM Satellite Radio Holdings Inc. Cl. A* | 7,066,917 |
| | | 15,275,973 |
| | **METALS & MINING—.9%** | |
| 57,100 | Peabody Energy Corporation | 2,971,484 |
| | **MULTILINE RETAIL—1.3%** | |
| 33,700 | Federated Department Stores, Inc. | 2,469,536 |
| 31,600 | Penny, (JC) Co. Inc. | 1,661,528 |
| | | 4,131,064 |
| | **COMPUTER TECHNOLOGY—.6%** | |
| 48,900 | NAVTEQ* | 1,818,102 |
| | **OIL & GAS—3.6%** | |
| 26,600 | Canadian Natural Resources Ltd. | 967,708 |
| 54,500 | Enterprise Products Partners L.P. | 1,460,055 |
| 112,400 | Exxon Mobil Corporation | 6,459,628 |
| 71,400 | Sasol Ltd. ADR# | 1,926,372 |
| 29,800 | Talisman Energy Inc. | 1,119,586 |
| | | 11,933,349 |
| | **PERSONAL PRODUCTS—1.5%** | |
| 47,200 | Avon Products, Inc. | 1,786,520 |
| 60,500 | Gillette Company (The) | 3,063,115 |
| | | 4,849,635 |
| | **PHARMACEUTICALS—5.7%** | |
| 25,000 | Johnson & Johnson | 1,625,000 |
| 43,400 | Novartis AG ADR# | 2,058,896 |
| 176,700 | Pfizer Inc. | 4,873,386 |
| 49,100 | Sanofi-Aventis ADR# | 2,012,609 |
| 226,600 | Schering-Plough Corporation | 4,318,996 |
| 88,800 | Wyeth | 3,951,600 |
| | | 18,840,487 |
| | **RETAIL—.7%** | |
| 115,300 | Saks Incorporated* | 2,187,241 |
| | **SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT—2.1%** | |
| 137,350 | Intel Corporation | 3,579,341 |
| 44,000 | Linear Technology Corporation | 1,614,360 |
| 79,600 | National Semiconductor Corporation | 1,753,588 |
| | | 6,947,289 |
| | **SOFTWARE—2.3%** | |
| 167,900 | Microsoft Corporation | 4,170,636 |
| 260,300 | Oracle Corporation* | 3,435,960 |
| | | 7,606,596 |

| Shares | | Value |
|---|---|---|
| | **SPECIALTY RETAIL—.7%** | |
| 37,950 | Lowe's Companies, Inc. | $ 2,209,449 |
| | **TEXTILES, APPAREL & LUXURY GOODS—.9%** | |
| 51,300 | Coach, Inc.* | 1,722,141 |
| 25,600 | Polo Ralph Lauren Corporation Cl. A | 1,103,616 |
| | | 2,825,757 |
| | **TOBACCO—1.0%** | |
| 49,000 | Altria Group, Inc. | 3,168,340 |
| | **WIRELESS TELECOMMUNICATION SERVICES—1.2%** | |
| 156,750 | Sprint Corporation | 3,932,857 |
| | **Total Common Stocks (Cost $199,122,022)** | 213,158,312 |

| Principal Amount | CORPORATE BONDS—14.1% | |
|---|---|---|
| | **AEROSPACE & DEFENSE—.5%** | |
| $ 836,719 | Systems 2001 Asset Trust Cl. G, 6.66%, 9/15/13(a) | 912,559 |
| 1,038,000 | United Technologies, 4.875%, 11/1/06 | 1,050,352 |
| | | 1,962,911 |
| | **AUTOMOTIVE—.6%** | |
| 790,000 | DaimlerChrysler N. A. Holding Corp., 4.05%, 6/4/08 | 778,428 |
| 1,276,000 | General Motors Acceptance, 6.875%, 9/15/11 | 1,179,301 |
| | | 1,957,729 |
| | **BEVERAGES—.3%** | |
| 825,000 | Anheuser-Busch Companies, Inc., 7.00%, 12/1/25 | 861,967 |
| | **BUILDING & CONSTRUCTION—.2%** | |
| 650,000 | Pulte Homes Inc., 5.20%, 2/15/15 | 644,158 |
| | **BUILDING PRODUCTS—.1%** | |
| 350,000 | Masco Corporation, 4.80%, 6/15/15 | 348,481 |
| | **CABLE—.4%** | |
| 1,350,000 | Cox Communications, Inc., 5.45%, 12/15/14 | 1,380,443 |
| | **CAPITAL MARKETS—.6%** | |
| 1,950,000 | Goldman Sachs Group, Inc., 4.75%, 7/15/13 | 1,951,591 |

| Principal Amount | CORPORATE BONDS—(Cont'd) | Value |
|---|---|---|
| | **COMMERCIAL BANKS—2.4%** | |
| $1,575,000 | Associates Corp. North America, 6.95,% 11/1/18 | $ 1,902,069 |
| 1,175,000 | Bank of America Corp., 5.375%, 6/15/14 | 1,250,709 |
| 1,890,000 | Key Bank NA, 4.41%, 3/18/08 | 1,899,197 |
| 600,000 | Synovus Financial Corp., 5.125%, 6/15/17(a) | 611,816 |
| 1,915,000 | Wells Fargo & Co. Sr. Global Notes, 6.375%, 8/1/11 | 2,120,154 |
| | | 7,783,945 |
| | **COMPUTERS & PERIPHERALS—.5%** | |
| 1,500,000 | International Business Machines Corp., 6.50%, 1/15/28 | 1,775,928 |
| | **DIVERSIFIED FINANCIAL SERVICES—.3%** | |
| 750,000 | JPMorgan Chase & Co., 7.00%, 11/15/09 | 825,736 |
| | **DIVERSIFIED TELECOMMUNICATION SERVICES—.9%** | |
| 1,840,000 | Telecom Italia Capital, 4.95%, 9/30/14(a) | 1,825,208 |
| 1,068,000 | Verizon New York Inc., Series A, 6.875%, 4/1/12 | 1,181,931 |
| | | 3,007,139 |
| | **ELECTRIC UTILITIES—.5%** | |
| 1,500,000 | Con Edison Company Of New York, 5.625%, 7/1/12 | 1,604,919 |
| | **ENERGY EQUIPMENT & SERVICES—.5%** | |
| 1,500,000 | Baker Hughes Inc., 6.25%, 1/15/09 | 1,600,934 |
| | **FINANCE—.6%** | |
| 1,565,000 | Caterpillar Financial Services Corporation, 3.70%, 8/15/08 | 1,542,932 |
| 500,000 | Toll Brothers Finance Corp., 5.15%, 5/15/15(a) | 497,508 |
| | | 2,040,440 |
| | **GAS UTILITIES—.6%** | |
| 2,000,000 | Kinder Morgan Energy Partners, L.P. 5.80%, 3/15/35 | 2,021,104 |
| | **HEALTH CARE PROVIDERS & SERVICES—.3%** | |
| 1,000,000 | Manor Care, Inc., 6.25%, 5/1/13 | 1,071,843 |
| | **HOTELS, RESTAURANTS & LEISURE—.2%** | |
| 650,000 | Marriott International, 4.625%, 6/15/12 | 644,533 |

| Principal Amount | | Value |
|---|---|---|
| | **INSURANCE—1.5%** | |
| $1,850,000 | Berkshire Hathaway Fin, Corp., 4.85%, 1/15/15(a) | $ 1,870,898 |
| 2,175,000 | Markel Corp., 7.00%, 5/15/08 | 2,313,574 |
| 500,000 | W. R. Berkley Corporation, 5.60%, 5/15/15 | 510,157 |
| 300,000 | Willis Group North America, 5.625%, 7/15/15 | 302,503 |
| | | 4,997,132 |
| | **MEDIA—.3%** | |
| 748,000 | Comcast Corporation , 6.50%, 1/15/15 | 835,255 |
| 284,000 | Liberty Media Corporation Floating Rate Note, 4.91%, 9/17/06 | 285,820 |
| | | 1,121,075 |
| | **METALS & MINING—.2%** | |
| 650,000 | Alcan Inc., 5.00%, 6/1/15 | 654,260 |
| | **MULTI-UTILITIES UNREGULATED POWER—.3%** | |
| 1,070,000 | Duke Energy Corporation, 5.625%, 11/30/12 | 1,136,769 |
| | **OIL & GAS—1.0%** | |
| 1,895,000 | Canadian Natural Resources, 4.90%, 12/1/14 | 1,906,410 |
| 1,225,000 | Nexen Inc., 5.875%, 3/10/35 | 1,249,380 |
| | | 3,155,790 |
| | **OIL & GAS EXTRACTION—.2%** | |
| 500,000 | Enterprise Products, 5.00%, 3/1/15 | 491,894 |
| | **PHARMACEUTICALS—.6%** | |
| 1,855,000 | Merck & Co. Inc., 4.75%, 3/1/15 | 1,875,156 |
| | **THRIFTS & MORTGAGE FINANCE—.5%** | |
| 1,590,000 | Washington Mutual, Inc., 4.625%, 4/1/14 | 1,550,844 |
| | **Total Corporate Bonds (Cost $45,858,821)** | 46,466,721 |
| | **U.S. GOVERNMENT & AGENCY OBLIGATIONS—18.2%** | |
| | Federal Home Loan Banks, | |
| 1,000,000 | 6.38%, 8/15/06 | 1,026,918 |
| 1,000,000 | 6.75%, 8/15/07 | 1,059,128 |
| 3,200,000 | 4.10%, 6/13/08 | 3,196,976 |
| 850,000 | 3.75%, 8/15/08 | 845,328 |
| 2,387,359 | 4.84%, 1/25/12 | 2,421,678 |
| 1,230,000 | 5.50%, 5/18/15 | 1,240,856 |
| | Federal Home Loan Mortgage Corporation, | |
| 2,000,000 | 4.13%, 11/18/09 | 2,000,908 |
| 2,350,000 | 4.50%, 11/15/11 | 2,358,011 |

| Principal Amount | U.S. GOVERNMENT & AGENCY OBLIGATIONS—(Cont'd) | Value |
|---|---|---|
| | Federal National Mortgage Association, | |
| $ 500,000 | 6.96%, 4/2/07 | $ 526,594 |
| 1,300,000 | 6.625%, 10/15/07 | 1,379,148 |
| 1,380,000 | 3.25%, 8/15/08 | 1,355,319 |
| 1,500,000 | 3.85%, 4/14/09 | 1,496,449 |
| 2,390,000 | 4.30%, 1/19/10 | 2,394,825 |
| 1,515,000 | 4.40%, 3/8/10 | 1,518,435 |
| 1,900,000 | 5.00%, 4/19/10 | 1,917,879 |
| 2,117,546 | 4.80%, 4/25/10 | 2,142,692 |
| 1,230,000 | 3.00%, 7/16/13 | 1,221,031 |
| 508,000 | 6.625%, 11/15/30 | 661,518 |
| | U.S. Treasury Bonds, | |
| 2,094,000 | 7.50%, 11/15/16 | 2,745,186 |
| 1,000,000 | 5.25%, 11/15/28 | 1,142,461 |
| 2,440,000 | 5.375%, 2/15/31 | 2,879,964 |
| | U.S. Treasury Notes, | |
| 1,550,000 | 6.50%, 8/15/05 | 1,556,783 |
| 4,000,000 | 3.75%, 3/31/07 | 4,007,344 |
| 230,000 | 4.375%, 5/15/07 | 233,135 |
| 6,385,000 | 3.00%, 11/15/07 | 6,294,218 |
| 132,000 | 3.125%, 9/15/08 | 129,803 |
| 1,626,000 | 3.125%, 4/15/09 | 1,593,925 |
| 880,000 | 3.625%, 7/15/09 | 877,354 |
| 4,100,000 | 3.50%, 11/15/09 | 4,065,248 |
| 1,900,000 | 4.25%, 8/15/13 | 1,948,095 |
| 900,000 | 4.25% 11/15/14 | 921,411 |
| 2,825,000 | 4.00%, 2/15/15 | 2,835,927 |
| | **Total U.S. Government & Agency Obligations (Cost $59,509,543)** | 59,994,547 |

| Principal Amount | SHORT-TERM INVESTMENTS—3.0% | | Value |
|---|---|---|---|
| | **U.S. AGENCY OBLIGATIONS—3.0%** | | |
| $9,900,000 | Federal Home Loan Banks, 2.46%, 7/1/05 | | $ 9,900,000 |
| | **SECURITIES HELD UNDER REPURCHASE AGREEMENTS** | | |
| | Securities Held Under Repurchase Agreements, 2.80%, 7/1/05, with Bear, Stearns & Co. Inc. dtd 6/30/05, repurchase price $156,894; collaterized by U.S. Treasury Bonds (par value $425,000 due 11/15/27) | | 156,882 |
| | **Total Short-Term Investments (Cost $10,056,882)** | | 10,056,882 |
| **Total Investments (Cost $314,547,268)(b)** | | 99.8% | 329,676,462 |
| Other Assets in Excess of Liabilities | | .2 | 610,811 |
| **Net Assets** | | 100.0% | $330,287,273 |

* Non-income producing security.
\# American Depositary Receipts.
(a) Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are deemed to be liquid and represent 0.2% of net assets of the Portfolio.
(b) At June 30, 2005, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $314,547,268 amounted to $15,129,194 which consisted of aggregate gross unrealized appreciation of $18,160,422 and aggregate gross unrealized depreciation of $3,031,228.

See Notes to Financial Statements.

## THE ALGER AMERICAN FUND
## ALGER AMERICAN BALANCED PORTFOLIO
## STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)

***June 30, 2005***

| | |
|---|---|
| **Assets:** | |
| Investments in securities, at value (identified cost*)—see accompanying schedule of investments | $329,676,462 |
| Receivable for investment securities sold | 1,877,648 |
| Receivable for shares of beneficial interest sold | 611 |
| Interest and dividends receivable | 1,351,458 |
| Prepaid expenses | 17,648 |
| Total Assets | 332,923,827 |
| **Liabilities:** | |
| Payable for investment securities purchased | 2,149,001 |
| Payable for shares of beneficial interest redeemed | 216,300 |
| Accrued investment management fees | 204,782 |
| Accrued expenses | 66,471 |
| Total Liabilities | 2,636,554 |
| **Net Assets** | $330,287,273 |
| **Net Assets Consist of:** | |
| Paid-in capital | $317,330,885 |
| Undistributed net investment income (accumulated loss) | 1,715,449 |
| Undistributed net realized gain (accumulated loss) | (3,888,255) |
| Net unrealized appreciation | 15,129,194 |
| **Net Assets** | $330,287,273 |
| **Class O** **Net Asset Value Per Share** | $ 13.51 |
| **Class S** **Net Asset Value Per Share** | $ 13.68 |
| Shares of beneficial interest outstanding—Note 5 | |
| **Class O** | 21,279,821 |
| **Class S** | 3,135,263 |
| *Identified cost | $314,547,268 |

See Notes to Financial Statements.

## The Alger American Fund
## Alger American Balanced Portfolio
## Statement of Operations (Unaudited)

***For the six months ended June 30, 2005***

| | |
|---|---|
| INVESTMENT INCOME | |
| Income: | |
| Interest | $ 2,508,460 |
| Dividends (net of foreign withholding taxes*) | 1,127,408 |
| Total Income | 3,635,868 |
| Expenses: | |
| Management fees—Note 3(a) | 1,242,589 |
| Custodian fees | 31,281 |
| Professional fees | 12,513 |
| Distribution fees—Note 3(b) Class S | 53,238 |
| Trustees' fees | 1,291 |
| Miscellaneous | 58,100 |
| Total Expenses | 1,399,012 |
| Net Investment Income | 2,236,856 |
| REALIZED AND UNREALIZED GAIN ON INVESTMENTS | |
| Net realized gain on investments | 13,432,859 |
| Net change in unrealized appreciation (depreciation) on investments | (11,580,499) |
| Net realized and unrealized gain on investments | 1,852,360 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | $ 4,089,216 |
| *Foreign withholding taxes | $ 514 |

See Notes to Financial Statements.

## The Alger American Fund
## Alger American Balanced Portfolio
## Statement of Changes in Net Assets (Unaudited)
***For the six months ended June 30, 2005***

| | |
|---|---|
| Net investment income | $ 2,236,856 |
| Net realized gain on investments | 13,432,859 |
| Net change in unrealized appreciation (depreciation) on investments | (11,580,499) |
| Net increase in net assets resulting from operations | 4,089,216 |
| Dividends to shareholders from: | |
| Net investment income | |
| Class O | (4,826,274) |
| Class S | (623,154) |
| Total dividends to shareholders | (5,449,428) |
| Decrease from shares of beneficial interest transactions: | |
| Class O | (21,073,357) |
| Class S | (1,458,277) |
| Net decrease from shares of beneficial interest transactions—Note 5 | (22,531,634) |
| Total decrease | (23,891,846) |
| Net Assets | |
| Beginning of period | 354,179,119 |
| End of period | $330,287,273 |
| Undistributed net investment income | $ 1,715,449 |

## The Alger American Fund
## Alger American Balanced Portfolio
## Statement of Changes in Net Assets
***For the year ended December 31, 2004***

| | |
|---|---|
| Net investment income | $ 4,791,441 |
| Net realized gain on investments | 17,663,589 |
| Net change in unrealized appreciation (depreciation) on investments | (7,195,886) |
| Net increase in net assets resulting from operations | 15,259,144 |
| Dividends to shareholders from: | |
| Net investment income | |
| Class O | (4,594,189) |
| Class S | (515,970) |
| Total dividends to shareholders | (5,110,159) |
| Increase (decrease) from shares of beneficial interest transactions: | |
| Class O | (8,131,316) |
| Class S | 14,491,781 |
| Net increase from shares of beneficial interest transactions—Note 5 | 6,360,465 |
| Total increase | 16,509,450 |
| Net Assets | |
| Beginning of year | 337,669,669 |
| End of year | $354,179,119 |
| Undistributed net investment income | $ 4,928,021 |

See Notes to Financial Statements.

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## THE ALGER AMERICAN FUND
## ALGER AMERICAN BALANCED PORTFOLIO
## FINANCIAL HIGHLIGHTS

***For a share outstanding throughout the period***

| | Net Asset Value, Beginning of Period | Income from Investment Operations | | | Dividends from Net Investment Income | Distributions from Net Realized Gains |
|---|---|---|---|---|---|---|
| | | Net Investment Income (Loss) | Net Realized and Unrealized Gain (Loss) on Investments | Total from Investment Operations | | |
| **Class O** | | | | | | |
| Six months ended 6/30/05(i)(iii) | $13.55 | $ 0.11 | $ 0.08 | $ 0.19 | $(0.23) | $ — |
| Year ended 12/31/04 | 13.16 | 0.19 | 0.40 | 0.59 | (0.20) | — |
| Year ended 12/31/03 | 11.29 | 0.19 | 1.94 | 2.13 | (0.26) | — |
| Year ended 12/31/02 | 13.08 | 0.20 | (1.79) | (1.59) | (0.20) | — |
| Year ended 12/31/01 | 13.77 | 0.18 | (0.43) | (0.25) | (0.20) | (0.24) |
| Year ended 12/31/00 | 15.57 | 0.20 | (0.61) | (0.41) | (0.13) | (1.26) |
| **Class S** | | | | | | |
| Six months ended 6/30/05(i)(iii) | $13.71 | $ 0.07 | $ 0.10 | $ 0.17 | $(0.20) | $ — |
| Year ended 12/31/04 | 13.34 | 0.17 | 0.39 | 0.56 | (0.19) | — |
| Year ended 12/31/03 | 11.47 | 0.23 | 1.90 | 2.13 | (0.26) | — |
| Eight months ended 12/31/02(i)(ii) | 12.50 | 0.02 | (1.05) | (1.03) | — | — |

(i) Ratios have been annualized; total return has not been annualized.
(ii) Commenced operations May 1, 2002.
(iii) Unaudited.

See Notes to Financial Statements.

| | | | Ratios/Supplemental Data | | | |
|---|---|---|---|---|---|---|
| Total Distributions | Net Asset Value, End of Period | Total Return | Net Assets, End of Period (000's omitted) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income (Loss) to Average Net Assets | Portfolio Turnover Rate |
| $ (0.23) | $13.51 | 1.44% | $ 287,398 | 0.81% | 1.38% | 117.95% |
| (0.20) | 13.55 | 4.57 | 309,744 | 0.87 | 1.41 | 177.66 |
| (0.26) | 13.16 | 19.03 | 308,990 | 0.87 | 1.60 | 135.67 |
| (0.20) | 11.29 | (12.29) | 254,290 | 0.87 | 2.16 | 188.76 |
| (0.44) | 13.08 | (1.93) | 224,959 | 0.85 | 2.53 | 62.93 |
| (1.39) | 13.77 | (2.76) | 115,894 | 0.88 | 2.40 | 63.37 |
| $ (0.20) | $13.68 | 1.27% | $ 42,889 | 1.06% | 1.14% | 117.95% |
| (0.19) | 13.71 | 4.27 | 44,435 | 1.12 | 1.20 | 177.66 |
| (0.26) | 13.34 | 18.73 | 28,680 | 1.11 | 1.25 | 135.67 |
| — | 11.47 | (8.24) | 494 | 1.17 | 1.67 | 188.76 |

*June 30, 2005*

**NOTE 1—General:**

The Alger American Fund (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Balanced Portfolio (the "Portfolio"). The Portfolio's investment objectives are current income and long-term capital appreciation which it seeks to achieve through investing in equity and fixed income securities. Shares of the Portfolio are available and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

**NOTE 2—Significant Accounting Policies:**

(a) ***Investment Valuation:*** Investments of the Portfolio are valued on each day the New York Stock Exchange (the "NYSE") is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed securities for which such information is regularly reported are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and asked price or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued. Securities included within the Nasdaq market are valued at the Nasdaq official closing price ("NOCP") on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

(b) ***Security Transactions and Investment Income:*** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

Premiums and discounts on debt securities purchased are amortized or accreted over the lives of the respective securities.

(c) ***Repurchase Agreements:*** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(d) ***Lending of Portfolio Securities:*** The Portfolio lends its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined. The Portfolio earns fees on the securities loaned. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. As of June 30, 2005, there were no securities on loan.

(e) ***Dividends to Shareholders:*** Dividends payable to shareholders are recorded by the Portfolio on the ex-dividend date.

Dividends from net investment income are declared and paid annually.

Dividends from net realized gains, offset by any loss carryforward, are declared and paid annually after the end of the fiscal year in which earned.

Each class is treated separately in determining the amounts of dividends of net investment income and capital gains payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses and premium/discount of debt securities. The reclassifications had no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(f) ***Federal Income Taxes:*** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, to its shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

(g) ***Allocation Methods:*** The Fund accounts separately for the assets, liabilities and operations of each portfolio. Expenses directly attributable to the Portfolio are charged to the Portfolio's operations; expenses which are applicable to all portfolios are allocated among them based on net assets. Income, realized and unrealized gains and losses, and expenses of the Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(h) ***Indemnification:*** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(i) ***Other:*** These financial statements have been prepared using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

**NOTE 3—Investment Management Fees and Other Transactions with Affiliates:**

(a) ***Investment Management Fees:*** Fees incurred by the Portfolio, pursuant to the provisions of its Investment Management Agreement (the "Agreement") with Fred Alger Management, Inc. ("Alger Management"), are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of .75%.

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses exceed 1.25% of the average daily net assets of the Portfolio, Alger Management will reimburse the Portfolio for the excess expenses.

(b) ***Distribution Fees:*** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of the Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) ***Brokerage Commissions:*** During the six months ended June 30, 2005, the Portfolio paid the Distributor $489,735 in connection with securities transactions.

(d) ***Shareholder Administrative Fees:*** Effective February 28, 2005, the Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of the transfer agent and related services. During the six months ended June 30, 2005, the Portfolio incurred fees of $38 for these services.

(e) ***Other:*** Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services.

**NOTE 4—Securities Transactions:**

Purchases and sales of securities, other than short-term securities of the Portfolio, for the six months ended June 30, 2005, were $397,492,937 and $422,209,581, respectively.

**NOTE 5—Share Capital:**

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value.

During the six months ended June 30, 2005, transactions of shares of beneficial interest were as follows:

| | Shares | Amount |
|---|---|---|
| Class O: | | |
| Shares sold | 515,773 | $ 6,859,511 |
| Dividends reinvested | 369,829 | 4,826,274 |
| Shares redeemed | (2,465,863) | (32,759,142) |
| Net decrease | (1,580,261) | $ (21,073,357) |
| Class S: | | |
| Shares sold | 105,138 | $ 1,413,189 |
| Dividends reinvested | 47,102 | 623,154 |
| Shares redeemed | (258,650) | (3,494,620) |
| Net decrease | (106,410) | $ (1,458,277) |

During the year ended December 31, 2004, transactions of shares of beneficial interest were as follows:

| | Shares | Amount |
|---|---|---|
| Class O: | | |
| Shares sold | 2,185,658 | $ 28,497,215 |
| Dividends reinvested | 364,618 | 4,594,189 |
| Shares redeemed | (3,161,452) | (41,222,720) |
| Net decrease | (611,176) | $ (8,131,316) |
| Class S: | | |
| Shares sold | 1,344,767 | $ 17,839,094 |
| Dividends reinvested | 40,405 | 515,970 |
| Shares redeemed | (293,720) | (3,863,283) |
| Net increase | 1,091,452 | $ 14,491,781 |

**NOTE 6—Tax Character of Distributions to Shareholders:**

Distributions paid during the six months ended June 30, 2005 and the year ended December 31, 2004, consisted entirely of ordinary income.

As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income | $ 5,435,104 |
| Undistributed long-term gain | — |
| Unrealized appreciation (depreciation) | 24,183,097 |

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales.

At December 31, 2004, the Portfolio, for federal income tax purposes, had a capital loss carryforward of $15,301,596 which expires in 2010. This amount may be applied against future net realized gains until the earlier of their utilization or expiration.

**NOTE 7—Regulatory Matters and Legal Proceedings:**

Alger Management has been responding to inquiries, document requests and/or subpoenas from regulatory authorities, including the United States Securities and Exchange Commission ("SEC"), the Office of the New York State Attorney General, and the Attorney General of New Jersey, in connection with their investigation of practices in the mutual fund industry identified as "market timing" and "late trading." Alger Management has assured the board of the Fund that if it be determined that improper trading practices in the Fund detrimentally affected its performance, Alger Management will make appropriate restitution.

Certain civil actions have developed out of the regulatory investigations. Several purported class actions and shareholder derivative suits have been filed against various parties, including, depending on the lawsuit, Alger Management, certain of the mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful market-timing and late-trading activities. These cases have been transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. On September 29, 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the "Derivative Complaint") and two substantially identical Consolidated Amended Class Action Complaints (together, the "Class Action Complaint") — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM).

The Derivative Complaint, brought on behalf of the Alger Mutual Funds and Castle Convertible Fund, Inc., a registered closed-end fund managed by Alger Management, alleges (i) violations, by Alger Management and, depending on the specific offense alleged, by its immediate parent the Distributor (Fred Alger & Company, Incorporated) and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940 and of Sections 206 and 215 of the Investment Advisers Act of 1940, breach of fiduciary duty, and breach of contract, (ii) various offenses by other, unrelated, third-party defendants, and (iii) unjust enrichment by all the named defendants, all by virtue of the alleged wrongful market-timing and late-trading activities. The complaint seeks, among other things, removal of the trustee defendants and of Alger Management, certain rescissory relief, disgorgement of management fees and allegedly unlawful profits, compensatory and punitive monetary damages, and plaintiffs' fees and expenses (including attorney and expert fees). The Class Action Complaint names the Alger-related defendants named in the Derivative Complaint as well as certain defendants not named in the Derivative Complaint, including certain entities affiliated with Alger Management, certain Alger Mutual Funds, including the Fund, and certain additional former trustees and a former officer of the defendant Alger Mutual Funds. It alleges, on the basis of factual allegations similar to those of the Derivative Complaint with respect to the Alger defendants, (i) offenses by Alger defendants similar to those alleged in the Derivative Complaint, (ii) violations, by Alger Management, the Distributor, their affiliates, the funds named as defendants, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, and Section 34(b) of the Investment Company Act of 1940, (iii) breach of contract by the funds named as defendants, and (iv) unjust enrichment by all of the named defendants. It seeks relief similar to that sought in the Derivative Complaint.

On or about April 12, 2005, the Attorney General of the State of West

***June 30, 2005***

Virginia filed a complaint in the Circuit Court of Marshall County, West Virginia against a number of mutual fund investment advisers, distributors and others, including Alger Management and the Distributor, alleging violations of the West Virginia Consumer Credit and Protection Act and other wrongful conduct. Insofar as the factual allegations in the complaint relate to Alger Management and the Distributor, they ascribe improper conduct to these entities relating to "market timing" in one or more of the Alger Mutual Funds. The complaint seeks injunctive relief, civil monetary penalties, costs and attorney fees, and other relief.

Alger Management continues to cooperate with the SEC and state investigations, which have not, as of the present date, been resolved. Although Alger Management does not believe that the Alger Mutual Funds are themselves targets of these regulators' investigations as potential enforcement defendants, the actions of Alger Management and certain of its affiliates and their senior executives and Alger Mutual Fund senior personnel are of interest to the investigators. Although no regulatory enforcement action has yet been commenced against Alger Management, board members or personnel in connection with the matters being investigated (other than the actions resolved in the fall of 2003 against James P. Connelly, Jr., former Vice Chairman of the Distributor), it is possible that the SEC and the states may pursue actions in the future. The potential timing of any such action or the relief or remedies that may be sought are not known at this time. Alger Management is not yet able to predict whether or on what terms matters might be resolved with the SEC or the states. The SEC and, in some cases, state government authorities have a variety of administrative and civil enforcement powers, including injunctive powers, authority to assess substantial fines and penalties and order restitution, authority to limit the activities of a person or company (including license and registration revocations, injunctive authority and prohibition from engaging in the investment or securities businesses) and other enforcement powers, that may be exercised administratively or by going into court.

Under Section 9(a) of the Investment Company Act, if any of the various regulatory investigations or lawsuits were to result in a court injunction against Alger Management or the Distributor, both companies would, in the absence of exemptive relief granted by the SEC, be barred from serving as investment adviser/sub-adviser or principal underwriter for any registered investment company, including the Fund. There is no assurance that such exemptive relief would be granted if sought. In addition, it is possible that these matters and/or other developments resulting from these matters could result in increased Fund redemptions, loss of Alger Management personnel or Fund board members, diversion of time and attention of Alger Management personnel, diminishment of financial resources of Alger Management, or other consequences potentially adverse to the Fund. Alger Management cannot predict the potential effect of such actions upon Alger Management or the Fund. There can be no assurance that the effect, if any, would not be material.

**Proxy Voting Policies**

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov.

**Quarterly Fund Holdings**

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov. The Portfolio's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

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# The Alger American Fund

**Alger American**
**Leveraged AllCap Portfolio**

## Semi-Annual Report

**June 30, 2005**

**(Unaudited)**

# Table Of Contents

# Dear Shareholders,

**July 29, 2005**

The first six months of 2005 saw the markets treading water, stuck in a narrow trading range. Yet, corporations are generating impressive earnings, and the economy continues to grow at a healthy rate. Corporate earnings year-to-date, while slower than the torrid pace of 2004, have surprised on the upside. First quarter earnings grew at an average of more than 13% and second quarter growth could be in the range of 10%.

However, many investors seem to believe that earnings growth will soon slow sharply. We disagree and think that earnings can continue to surprise on the upside for quite some time. Companies are benefiting not just from the continued efficiencies and productivity enhancement of information technology, but from robust global growth, especially in emerging economies such as China.

The importance of international growth is clearly increasing. In 2004, 101 companies listed on the S&P 500 Index derived 20-40% of their revenues outside of the U.S. Another 100 derived 40-60%. And there appears to be a connection between international exposure, earnings, and stock performance. The "sweet spot" is those companies that fall in the 20-40% range. In 2004, they had earnings growth of 42% and their stock gained 19% on average. That is nearly double what the S&P 500 Index gained.

Overall, the trend is clearly one of profit growth that is significantly stronger than either wage growth or GDP growth. Stocks, however, have not reflected the strength of corporate earnings, with the result that valuations have contracted even as earnings have expanded.

The longer this trend continues, the cheaper stocks become relative to their potential rate of future return. Regardless of one's appetite for equities, we believe that we are in the early stages of another "age of capital." The term was first used to describe the later part of the 19th century in the United States and in England. Then, a few dominant companies and financial institutions did well, and labor struggled to get a fair slice of the pie. Today, companies are again capturing a disproportionate share of the gains, and not just large multinationals, but thousands of smaller and mid-sized companies that can use information technologies and low trade barriers to compete and conduct business internationally.

We see little to alter this trend in the coming years. That may continue to pose challenges to labor. But the real losers here are national economies, which are, after all, only markets for global companies. Those companies have no allegiance to any one country, even if their executives do. Rather than do what is best for a country, companies will go where the growth is and do what is necessary to minimize costs and maximize profits. More than ever before, they will carefully choose where and how they operate. As a result, the most competitive and successful companies should grow much faster than any one region or any one economy.

Finally, we want to thank you for the confidence you have placed in Alger. It is our goal not only to find the best investments for you, but also to continue to earn your trust in every aspect of our business.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

## THE ALGER AMERICAN FUND
## ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
## SHAREHOLDER EXPENSE EXAMPLE (UNAUDITED)

As a shareholder of the Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting January 1, 2005 and ending June 30, 2005.

### Actual Expenses

The first line for each class of shares in the table below 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 would have 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 the Period” to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

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

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. Therefore, the second line under each class of shares in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

| | | Beginning Account Value January 1, 2005 | Ending Account Value June 30, 2005 | Expenses Paid During the Period January 1, 2005 to June 30, 2005(b) | Ratio of Expenses to Average Net Assets For the Six Months Ended June 30, 2005(c) |
|---|---|---|---|---|---|
| **Class O** | **Actual** | $1,000.00 | $1,010.50 | $4.54 | 0.91% |
| | **Hypothetical(a)** | 1,000.00 | 1,020.28 | 4.56 | 0.91 |
| **Class S** | **Actual** | 1,000.00 | 1,009.30 | 5.78 | 1.16 |
| | **Hypothetical(a)** | 1,000.00 | 1,019.04 | 5.81 | 1.16 |

(a) 5% annual return before expenses.

(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).

(c) Annualized.

## THE ALGER AMERICAN FUND
## ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
## PORTFOLIO SUMMARY* (UNAUDITED)

| Sectors | |
|---|---|
| Consumer Discretionary | 9.5% |
| Consumer Staples | 6.9 |
| Energy | 7.6 |
| Financials | 7.7 |
| Health Care | 27.4 |
| Industrials | 10.4 |
| Information Technology | 26.5 |
| Materials | 1.4 |
| Telecommunication Services | 1.9 |
| Cash and Net Other Assets | 0.7 |
| | 100.0% |

* Based on net assets.

## THE ALGER AMERICAN FUND
## ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO
## SCHEDULE OF INVESTMENTS—JUNE 30, 2005 (UNAUDITED)

| Shares | COMMON STOCKS—99.3% | Value |
|---|---|---|
| | **AEROSPACE & DEFENSE—3.1%** | |
| 36,800 | General Dynamics Corporation | $ 4,031,072 |
| 35,500 | Lockheed Martin Corporation | 2,302,885 |
| 93,200 | United Technologies Corporation | 4,785,820 |
| | | 11,119,777 |
| | **AIR FREIGHT & LOGISTICS—1.8%** | |
| 90,300 | UTI Worldwide, Inc. | 6,286,686 |
| | **BIOTECHNOLOGY—6.1%** | |
| 31,000 | Affymetrix Inc.* | 1,671,830 |
| 70,400 | Amgen Inc.* | 4,256,384 |
| 40,700 | Biogen Idec Inc.* | 1,402,115 |
| 47,000 | Celgene Corporation* | 1,916,190 |
| 80,000 | Genentech, Inc.* | 6,422,400 |
| 79,400 | Gilead Sciences, Inc.* | 3,492,806 |
| 36,800 | Onyx Pharmaceuticals, Inc.* | 878,784 |
| 100,300 | Vertex Pharmaceuticals Incorporated* | 1,689,052 |
| | | 21,729,561 |
| | **BUSINESS SERVICES—.1%** | |
| 6,700 | MicroStrategy Incorporated Cl. A* | 355,368 |
| | **CAPITAL MARKETS—.9%** | |
| 85,700 | Ameritrade Holding Corporation* | 1,593,163 |
| 32,100 | Merrill Lynch & Co., Inc. | 1,765,821 |
| | | 3,358,984 |
| | **CHEMICALS—.5%** | |
| 40,600 | Lubrizol Corporation | 1,705,606 |
| | **COMMERCIAL BANKS—.7%** | |
| 41,150 | Wells Fargo & Company | 2,534,017 |
| | **COMMERCIAL SERVICES & SUPPLIES—.4%** | |
| 45,900 | First Marblehead Corporation (The)* | 1,609,254 |
| | **COMMUNICATION EQUIPMENT—2.5%** | |
| 210,400 | Brocade Communications Systems, Inc.* | 816,352 |
| 393,000 | Nokia Oyj ADR# | 6,539,520 |
| 45,850 | QUALCOMM Inc. | 1,513,509 |
| | | 8,869,381 |
| | **COMMUNICATION TECHNOLOGY—1.2%** | |
| 173,800 | Nextel Partners, Inc. Cl. A* | 4,374,546 |
| | **COMPUTERS & PERIPHERALS—2.5%** | |
| 119,200 | Apple Computer, Inc.* | 4,387,752 |
| 137,600 | EMC Corporation* | 1,886,496 |
| 39,400 | Memc Electronic Materials, Inc.* | 621,338 |
| 13,000 | PalmOne, Inc.* | 387,010 |
| 126,100 | Western Digital Corporation* | 1,692,262 |
| | | 8,974,858 |
| | **COMPUTER SOFTWARE—.9%** | |
| 163,100 | Check Point Software Technologies Ltd.* | 3,229,380 |

| Shares | | Value |
|---|---|---|
| | **COMPUTER TECHNOLOGY—2.2%** | |
| 209,900 | NAVTEQ* | $ 7,804,082 |
| | **DIVERSIFIED FINANCIAL SERVICES—2.4%** | |
| 138,300 | Citigroup Inc. | 6,393,609 |
| 23,600 | Lehman Brothers Holdings Inc. | 2,343,008 |
| | | 8,736,617 |
| | **ENERGY EQUIPMENT & SERVICES—4.0%** | |
| 231,700 | National-Oilwell Varco Inc.* | 11,015,018 |
| 41,600 | Schlumberger Limited | 3,159,104 |
| | | 14,174,122 |
| | **FINANCIAL INFORMATION SERVICES—1.0%** | |
| 120,600 | Genworth Financial Inc. Cl. A | 3,645,738 |
| | **FINANCIAL SERVICES—.7%** | |
| 225,700 | Hudson City Bancorp Inc. | 2,575,237 |
| | **FOOD & STAPLES RETAILING—4.6%** | |
| 342,600 | CVS Corporation | 9,959,382 |
| 99,100 | Performance Food Group Co.* | 2,993,811 |
| 74,300 | Wal-Mart Stores, Inc. | 3,581,260 |
| | | 16,534,453 |
| | **FREIGHT & LOGISTICS—.9%** | |
| 37,800 | FedEx Corp. | 3,062,178 |
| | **HEALTH CARE—.8%** | |
| 42,000 | WellPoint Inc.* | 2,924,880 |
| | **HEALTH CARE EQUIPMENT & SUPPLIES—2.8%** | |
| 55,300 | Beckman Coulter, Inc. | 3,515,421 |
| 33,500 | Biomet, Inc. | 1,160,440 |
| 44,400 | Fisher Scientific International Inc.* | 2,881,560 |
| 55,200 | St. Jude Medical, Inc.* | 2,407,272 |
| | | 9,964,693 |
| | **HEALTH CARE PROVIDERS & SERVICES—6.2%** | |
| 38,600 | AmerisourceBergen Corporation | 2,669,190 |
| 75,200 | Caremark Rx, Inc.* | 3,347,904 |
| 34,600 | CIGNA Corporation | 3,703,238 |
| 40,000 | Community Health Systems Inc.* | 1,511,600 |
| 71,000 | HCA, Inc. | 4,023,570 |
| 18,000 | McKesson Corporation | 806,220 |
| 54,800 | PacifiCare Health Systems, Inc.* | 3,915,460 |
| 44,800 | UnitedHealth Group Incorporated | 2,335,872 |
| | | 22,313,054 |
| | **HOTELS, RESTAURANTS & LEISURE—1.2%** | |
| 171,900 | Hilton Hotels Corporation | 4,099,815 |
| | **HOUSEHOLD PRODUCTS—1.2%** | |
| 83,000 | Procter & Gamble Company | 4,378,250 |

| Shares | COMMON STOCKS—(Cont'd) | Value |
|---|---|---|
| | **INDUSTRIAL CONGLOMERATES—3.1%** | |
| 158,100 | General Electric Company | $ 5,478,165 |
| 191,600 | Tyco International Ltd. | 5,594,720 |
| | | 11,072,885 |
| | **INFORMATION TECHNOLOGY SERVICES—.2%** | |
| 32,700 | Kanbay International Inc.* | 755,697 |
| | **INSURANCE—1.4%** | |
| 32,500 | American International Group, Inc. | 1,888,250 |
| 80,100 | St. Paul Travelers Companies, Inc. (The) | 3,166,353 |
| | | 5,054,603 |
| | **INTERNET SOFTWARE & SERVICES—7.1%** | |
| 48,100 | Google Inc. Cl A* | 14,148,615 |
| 73,100 | Netease.com Inc. ADR*# | 4,174,741 |
| 206,500 | Yahoo! Inc.* | 7,155,225 |
| | | 25,478,581 |
| | **LEISURE & ENTERTAINMENT—2.1%** | |
| 206,400 | Shanda Interactive Entertainment Ltd.* | 7,593,456 |
| | **MACHINERY—.7%** | |
| 26,100 | Caterpillar Inc. | 2,487,591 |
| | **MACHINERY—OIL WELL EQUIPMENT & SERVICES—.6%** | |
| 84,550 | Patterson-UTI Energy, Inc. | 2,353,027 |
| | **MEDIA—3.6%** | |
| 28,250 | NeuStar, Inc. Cl. A* | 723,200 |
| 349,200 | News Corporation Cl. A | 5,650,056 |
| 227,200 | Time Warner Inc.* | 3,796,512 |
| 83,500 | Viacom Inc. Cl. B | 2,673,670 |
| | | 12,843,438 |
| | **METALS & MINING—2.9%** | |
| 40,900 | Alpha Natural Resources, Inc.* | 976,692 |
| 118,000 | Peabody Energy Corporation | 6,140,720 |
| 34,500 | Phelps Dodge Corporation | 3,191,250 |
| | | 10,308,662 |
| | **MULTILINE RETAIL—1.9%** | |
| 119,900 | Kohl's Corporation* | 6,703,609 |
| | **OIL & GAS—1.0%** | |
| 58,300 | BP PLC Sponsored ADR# | 3,636,754 |
| | **PERSONAL CARE—.6%** | |
| 24,800 | Bausch & Lomb Incorporated | 2,058,400 |
| | **PERSONAL PRODUCTS—1.1%** | |
| 74,400 | Gillette Company (The) | 3,766,872 |

| Shares | | Value |
|---|---|---|
| | **PHARMACEUTICALS—10.9%** | |
| 40,900 | Abbott Laboratories | $ 2,004,509 |
| 34,600 | AstraZeneca PLC Sponsored ADR# | 1,427,596 |
| 37,100 | Eli Lilly and Company | 2,066,841 |
| 210,325 | IVAX Corporation* | 4,521,988 |
| 117,600 | Johnson & Johnson | 7,644,000 |
| 37,500 | MGI Pharma, Inc.* | 816,000 |
| 67,800 | Novartis AG ADR# | 3,216,432 |
| 203,400 | Pfizer Inc. | 5,609,772 |
| 71,800 | Sanofi-Aventis ADR# | 2,943,082 |
| 182,600 | Schering-Plough Corporation | 3,480,356 |
| 39,100 | Sepracor Inc.* | 2,346,391 |
| 66,100 | Wyeth | 2,941,450 |
| | | 39,018,417 |
| | **RETAIL—.1%** | |
| 3,700 | Neiman Marcus Group, Inc. Cl. A | 358,604 |
| | **ROAD & RAIL—.9%** | |
| 68,800 | Burlington Northern Santa Fe Corporation | 3,239,103 |
| | **SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT—4.6%** | |
| 97,300 | ATI Technologies Inc.* | 1,153,005 |
| 52,000 | Broadcom Corporation Cl. A* | 1,846,520 |
| 183,600 | Intel Corporation | 4,784,616 |
| 103,300 | Marvell Technology Group Ltd.* | 3,929,532 |
| 86,500 | Photronics, Inc.* | 2,018,910 |
| 366,100 | Skyworks Solutions, Inc.* | 2,698,157 |
| | | 16,430,740 |
| | **SOFTWARE—4.3%** | |
| 41,600 | Intuit Inc.* | 1,876,576 |
| 228,500 | Microsoft Corporation | 5,675,940 |
| 450,200 | Oracle Corporation* | 5,942,640 |
| 124,750 | Verifone Holdings Inc.* | 2,027,188 |
| | | 15,522,344 |
| | **SPECIALTY RETAIL—2.1%** | |
| 92,000 | Bed Bath & Beyond Inc.* | 3,843,760 |
| 62,250 | Lowe's Companies, Inc. | 3,624,195 |
| | | 7,467,955 |
| | **TEXTILES, APPAREL & LUXURY GOODS—.9%** | |
| 96,800 | Coach, Inc.* | 3,249,575 |
| | **WIRELESS TELECOMMUNICATION SERVICES—.5%** | |
| 24,500 | SpectraSite, Inc.* | 1,823,535 |
| | **Total Common Stocks (Cost $324,060,710)** | 355,584,385 |

| Principal Amount | SHORT-TERM INVESTMENTS—1.0% | | Value |
|---|---|---|---|
| | **U.S. AGENCY OBLIGATIONS—1.0%** | | |
| $3,700,000 | Federal Home Loan Banks, 2.46%, 7/1/05 . . . | | $ 3,700,000 |
| | **SECURITIES HELD UNDER REPURCHASE AGREEMENTS** | | |
| | Securities Held Under Repurchase Agreements, 2.80%, 7/1/05, with Bear, Stearns & Co. Inc. dtd 6/30/05, repurchase price $155,210; collaterized by U.S. Treasury Bonds (par value $420,000 due 11/15/27) . . . . . . | | 155,198 |
| | **Total Short-Term Investments (Cost $3,855,198)** . . . . . . . . . . . . . . . . . . | | 3,855,198 |
| **Total Investments (Cost $327,915,908)** . . . . . . . . . . . . . . . . . . . . . . | | 100.3% | 359,439,583 |
| Liabilities in Excess of Other Assets . . . . . . . . . . . . . | | (0.3) | (1,210,128) |
| **Net Assets** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | 100.0% | $358,229,455 |

* Non-income producing security.
# American Depositary Receipts.
(a) At June 30, 2005, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $327,915,908 amounted to $31,523,675 which consisted of aggregate gross unrealized appreciation of $40,946,000 and aggregate gross unrealized depreciation of $9,422,325.

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**
**STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)**

***June 30, 2005***

| | |
|---|---|
| **Assets:** | |
| Investments in securities, at value (identified cost*)—see accompanying schedule of investments | $359,439,583 |
| Receivable for investment securities sold | 9,336,826 |
| Receivable for shares of beneficial interest sold | 14,753 |
| Interest and dividends receivable | 147,131 |
| Prepaid expenses | 17,864 |
| Total Assets | 368,956,157 |
| **Liabilities:** | |
| Payable for investment securities purchased | 10,219,947 |
| Payable for shares of beneficial interest redeemed | 182,960 |
| Accrued investment management fees | 252,918 |
| Accrued expenses | 70,877 |
| Total Liabilities | 10,726,702 |
| **Net Assets** | $358,229,455 |
| **Net Assets Consist of:** | |
| Paid-in capital | $521,021,125 |
| Undistributed net investment income (accumulated loss) | (163,911) |
| Undistributed net realized gain (accumulated loss) | (194,151,434) |
| Net unrealized appreciation | 31,523,675 |
| **Net Assets** | $358,229,455 |
| **Class O** | |
| **Net Asset Value Per Share** | $ 30.71 |
| **Class S** | |
| **Net Asset Value Per Share** | $ 30.45 |
| Shares of beneficial interest outstanding—Note 6 | |
| **Class O** | 11,203,986 |
| **Class S** | 462,997 |
| *Identified cost | $327,915,908 |

See Notes to Financial Statements.

**THE ALGER AMERICAN FUND**
**ALGER AMERICAN LEVERAGED ALLCAP PORTFOLIO**
**STATEMENT OF OPERATIONS (UNAUDITED)**

***For the six months ended June 30, 2005***

| | |
|---|---|
| INVESTMENT INCOME | |
| Income: | |
| Interest | $ 92,093 |
| Dividends (net of foreign withholding taxes*) | 1,401,976 |
| Total Income | 1,494,069 |
| Expenses: | |
| Management fees—Note 3(a) | 1,528,500 |
| Custodian fees | 27,988 |
| Professional fees | 13,418 |
| Distribution fees—Note 3(b) Class S | 16,838 |
| Trustees' fees | 1,291 |
| Miscellaneous | 69,945 |
| Total Expenses | 1,657,980 |
| Net Investment Loss | (163,911) |
| REALIZED AND UNREALIZED GAIN ON INVESTMENTS | |
| Net realized gain on investments | 19,209,284 |
| Net change in unrealized appreciation (depreciation) on investments | (16,332,330) |
| Net realized and unrealized gain on investments | 2,876,954 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | $ 2,713,043 |
| *Foreign withholding taxes | $ 11,388 |

See Notes to Financial Statements.

## The Alger American Fund
## Alger American Leveraged AllCap Portfolio
## Statement of Changes in Net Assets (Unaudited)

***For the six months ended June 30, 2005***

| | |
|---|---|
| Net investment loss | $ (163,911) |
| Net realized gain on investments | 19,209,284 |
| Net change in unrealized appreciation (depreciation) on investments | (16,332,330) |
| Net increase in net assets resulting from operations | 2,713,043 |
| Increase (decrease) from shares of beneficial interest transactions: | |
| Class O | (38,783,928) |
| Class S | 192,679 |
| Net decrease from shares of beneficial interest transactions—Note 6 | (38,591,249) |
| Total decrease | (35,878,206) |
| Net Assets | |
| Beginning of period | 394,107,661 |
| End of period | $358,229,455 |
| Undistributed net investment income (accumulated loss) | $ (163,911) |

## The Alger American Fund
## Alger American Leveraged AllCap Portfolio
## Statement of Changes in Net Assets

***For the year ended December 31, 2004***

| | |
|---|---|
| Net investment loss | $ (574,382) |
| Net realized gain on investments | 36,696,484 |
| Net change in unrealized appreciation (depreciation) on investments | (6,646,763) |
| Net increase in net assets resulting from operations | 29,475,339 |
| Increase (decrease) from shares of beneficial interest transactions: | |
| Class O | (30,503,604) |
| Class S | 5,519,232 |
| Net decrease from shares of beneficial interest transactions—Note 6 | (24,984,372) |
| Total increase | 4,490,967 |
| Net Assets | |
| Beginning of year | 389,616,694 |
| End of year | $394,107,661 |
| Undistributed net investment income (accumulated loss) | $ — |

See Notes to Financial Statements.

## The Alger American Fund
## Alger American Leveraged AllCap Portfolio
## Financial Highlights

***For a share outstanding throughout the period***

| | | Income from Investment Operations | | | | |
|---|---|---|---|---|---|---|
| | Net Asset Value, Beginning of Period | Net Investment Income (Loss) | Net Realized and Unrealized Gain (Loss) on Investments | Total from Investment Operations | Distributions from Net Realized Gains | Net Asset Value, End of Period |
| **Class O** | | | | | | |
| Six months ended 6/30/05(i)(iv) ....... | $30.39 | $(0.06) | $ 0.38 | $ 0.32 | $ — | $30.71 |
| Year ended 12/31/04 .............. | 28.09 | (0.07) | 2.37 | 2.30 | — | 30.39 |
| Year ended 12/31/03 .............. | 20.85 | (0.07) | 7.31 | 7.24 | — | 28.09 |
| Year ended 12/31/02 .............. | 31.55 | (0.14) | (10.56) | (10.70) | — | 20.85 |
| Year ended 12/31/01 .............. | 38.80 | 0.00(iii) | (6.06) | (6.06) | (1.19) | 31.55 |
| Year ended 12/31/00 .............. | 57.97 | (0.02)(iii) | (13.77) | (13.79) | (5.38) | 38.80 |
| **Class S** | | | | | | |
| Six months ended 6/30/05(i)(iv) ....... | $30.17 | $(0.05) | $ 0.33 | $ 0.28 | $ — | $30.45 |
| Year ended 12/31/04 .............. | 27.96 | (0.04) | 2.25 | 2.21 | — | 30.17 |
| Year ended 12/31/03 .............. | 20.83 | (0.16) | 7.29 | 7.13 | — | 27.96 |
| Eight months ended 12/31/02(i)(ii) ..... | 28.46 | (0.02) | (7.61) | (7.63) | — | 20.83 |

(i) Ratios have been annualized; total return has not been annualized.
(ii) Commenced operations May 1, 2002.
(iii) Amount was computed based on average shares outstanding during the period.
(iv) Unaudited.

See Notes to Financial Statements.

| | Ratios/Supplemental Data | | | |
|---|---|---|---|---|
| Total Return | Net Assets, End of Period (000's omitted) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income (Loss) to Average Net Assets | Portfolio Turnover Rate |
| 1.05% | $344,129 | 0.91% | (0.08)% | 58.11% |
| 8.19 | 380,336 | 0.97 | (0.14) | 182.41 |
| 34.72 | 382,289 | 0.97 | (0.36) | 161.71 |
| (33.91) | 271,373 | 0.96 | (0.49) | 203.05 |
| (15.93) | 443,209 | 0.92 | 0.00 | 103.03 |
| (24.83) | 476,517 | 0.90 | (0.03) | 132.28 |
| 0.93% | $ 14,100 | 1.16% | (0.33)% | 58.11% |
| 7.90 | 13,772 | 1.22 | (0.31) | 182.41 |
| 34.23 | 7,328 | 1.21 | (0.63) | 161.71 |
| (26.81) | 281 | 1.32 | (0.92) | 203.05 |

***June 30, 2005***

**NOTE 1—General:**

The Alger American Fund (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing six series of shares of beneficial interest: American Growth Portfolio, American Small Capitalization Portfolio, American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio and American Leveraged AllCap Portfolio. These financial statements include only the American Leveraged AllCap Portfolio (the "Portfolio"). The Portfolio invests primarily in equity securities and has an investment objective of long-term capital appreciation. Shares of the Portfolio are available and are being marketed exclusively as a pooled funding vehicle for qualified retirement plans and for life insurance companies writing all types of variable annuity contracts and variable life insurance policies.

The Portfolio offers Class O and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

**NOTE 2—Significant Accounting Policies:**

(a) ***Investment Valuation:*** Investments of the Portfolio are valued on each day the New York Stock Exchange (the "NYSE") is open as of the close of the NYSE (normally 4:00 p.m. Eastern time). Listed securities for which such information is regularly reported are valued at the last reported sales price or, in the absence of reported sales, at the mean between the bid and asked price or, in the absence of a recent bid or asked price, the equivalent as obtained from one or more of the major market makers for the securities to be valued. Securities included within the Nasdaq market are valued at the Nasdaq official closing price ("NOCP") on the day of valuation, or if there is no NOCP issued, at the last sale price on such day. Securities included within the Nasdaq market for which there is no NOCP and no last sale price on the day of valuation are valued at the mean between the last bid and asked prices on such day.

Securities for which market quotations are not readily available are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities having a remaining maturity of sixty days or less are valued at amortized cost which approximates market value.

(b) ***Security Transactions and Investment Income:*** Security transactions are recorded on a trade date basis. Resulting receivables and payables are carried at amounts which approximate fair value. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

(c) ***Repurchase Agreements:*** The Portfolio enters into repurchase agreements with approved institutions. The repurchase agreements are collateralized by U.S. Government securities, which are either received and held in physical possession by the custodian or received by such custodian in book-entry form through the Federal Reserve book-entry system. The collateral is valued on a daily basis during the term of the agreement to ensure that its value equals or exceeds the agreed-upon repurchase price to be repaid to the Portfolio. Additional collateral is obtained when necessary.

(d) ***Lending of Portfolio Securities:*** The Portfolio lends its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined. The Portfolio earns fees on the securities loaned. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. As of June 30, 2005, there were no securities on loan.

(e) ***Dividends to Shareholders:*** Dividends payable to shareholders are recorded by the Portfolio on the ex-dividend date.

Dividends from net investment income are declared and paid annually.

Dividends from net realized gains, offset by any loss carryforward, are declared and paid annually after the end of the fiscal year in which earned.

Each class is treated separately in determining the amounts of dividends of net investment income and capital gains payable to holders of its shares.

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income or net realized gain on investment transactions, or return of capital, depending on the type of book/tax differences that may exist.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. Reclassifications result primarily from the difference in tax treatment of net operating losses and premium/discount of debt securities. The reclassifications had no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(f) ***Federal Income Taxes:*** It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, to its shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

(g) ***Allocation Methods:*** The Fund accounts separately for the assets, liabilities and operations of each portfolio. Expenses directly attributable to the Portfolio are charged to the Portfolio's operations; expenses which are applicable to all portfolios are allocated among them based on net assets. Income, realized and unrealized gains and losses, and expenses of the Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees, which are only applicable to Class S shares.

(h) ***Indemnification:*** The Fund enters into contracts that contain a variety of indemnification provisions. The Fund's maximum exposure under these arrangements is unknown. The Fund does not anticipate recognizing any loss related to these arrangements.

(i) ***Other:*** These financial statements have been prepared using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

**NOTE 3—Investment Management Fees and Other Transactions with Affiliates:**

(a) ***Investment Management Fees:*** Fees incurred by the Portfolio, pursuant to the provisions of its Investment Management Agreement (the "Agreement") with Fred Alger Management, Inc. ("Alger Management"), are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of .85%.

The Agreement further provides that if in any fiscal year the aggregate expenses, excluding interest, taxes, brokerage commissions, and extraordinary expenses exceed 1.50% of the average daily net assets of the Portfolio, Alger Management will reimburse the Portfolio for the excess expenses.

(b) ***Distribution Fees:*** Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of the Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by the Distributor.

(c) ***Brokerage Commissions:*** During the six months ended June 30, 2005, the Portfolio paid the Distributor $252,547 in connection with securities transactions.

(d) ***Shareholder Administrative Fees:*** Effective February 28, 2005, the Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of the transfer agent and related services. During the six months ended June 30, 2005, the Portfolio incurred fees of $84 for these services.

(e) ***Other:*** Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services.

**NOTE 4—Securities Transactions:**

Purchases and sales of securities, other than short-term securities of the Portfolio, for the six months ended June 30, 2005, were $206,565,906 and $233,733,217, respectively.

**NOTE 5—Line of Credit:**

The Portfolio has a line of credit with its custodian bank whereby it may borrow up to one-third of the value of its assets, as defined, up to a maximum of $25,000,000. Such borrowings have a variable interest rate and are payable on demand. To the extent the Portfolio borrows under this line, it must pledge securities with a total value of at least twice the amount borrowed. For the six months ended June 30, 2005, the Portfolio had borrowings which averaged $414,607 at a weighted average interest rate of 3.87%.

**NOTE 6—Share Capital:**

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value.

During the six months ended June 30, 2005, transactions of shares of beneficial interest were as follows:

| | Shares | Amount |
|---|---|---|
| Class O: | | |
| Shares sold | 406,515 | $ 12,077,857 |
| Shares redeemed | (1,716,079) | (50,861,785) |
| Net decrease | (1,309,564) | $ (38,783,928) |
| Class S: | | |
| Shares sold | 49,268 | $ 1,457,419 |
| Shares redeemed | (42,695) | (1,264,740) |
| Net increase | 6,573 | $ 192,679 |

During the year ended December 31, 2004, transactions of shares of beneficial interest were as follows:

| | Shares | Amount |
|---|---|---|
| Class O: | | |
| Shares sold | 1,900,609 | $ 53,951,207 |
| Shares redeemed | (2,996,553) | (84,454,811) |
| Net decrease | (1,095,944) | $ (30,503,604) |
| Class S: | | |
| Shares sold | 242,826 | $ 6,844,614 |
| Shares redeemed | (48,549) | (1,325,382) |
| Net increase | 194,277 | $ 5,519,232 |

**NOTE 7—Tax Character of Distributions to Shareholders:**

During the six months ended June 30, 2005 and the year ended December 31, 2004, there were no distributions paid.

As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income | $ — |
| Undistributed long-term gain | — |
| Unrealized appreciation (depreciation) | 47,825,138 |

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales.

At December 31, 2004, the Portfolio, for federal income tax purposes, had capital loss carryforwards which expire as set forth in the table below. These amounts may be applied against future net realized gains until the earlier of their utilization or expiration.

| Expiration Date | | |
|---|---|---|
| 2009 | 2010 | Total |
| $115,342,080 | 97,987,772 | $213,329,852 |

**NOTE 8—Regulatory Matters and Legal Proceedings:**

Alger Management has been responding to inquiries, document requests and/or subpoenas from regulatory authorities, including the United States Securities and Exchange Commission ("SEC"), the Office of the New York State Attorney General, and the Attorney General of New Jersey, in connection with their investigation of practices in the mutual fund industry identified as "market timing" and "late trading." Alger Management has assured the board of the Fund that if it be determined that improper trading practices in the Fund detrimentally affected its performance, Alger Management will make appropriate restitution.

Certain civil actions have developed out of the regulatory investigations. Several purported class actions and shareholder derivative suits have been filed against various parties, including, depending on the lawsuit, Alger Management, certain of the mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful market-timing and late-trading activities. These cases have been transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. On September 29, 2004, consolidated amended complaints involving these cases — a Consolidated Amended Fund Derivative Complaint (the "Derivative Complaint") and two substantially identical Consolidated Amended Class Action Complaints (together, the "Class Action Complaint") — were filed in the Maryland federal district court under the caption number 1:04-MD-15863 (JFM).

The Derivative Complaint, brought on behalf of the Alger Mutual Funds and Castle Convertible Fund, Inc., a registered closed-end fund managed by Alger Management, alleges (i) violations, by Alger Management and, depending on the specific offense alleged, by its immediate parent the Distributor (Fred Alger & Company, Incorporated) and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940 and of Sections 206 and 215 of the Investment Advisers Act of 1940, breach of fiduciary duty, and breach of contract, (ii) various offenses by other, unrelated, third-party defendants, and (iii) unjust enrichment by all the named defendants, all by virtue of the alleged wrongful market-timing and late-trading activities. The complaint seeks, among other things, removal of the trustee defendants and of Alger Management, certain rescissory relief, disgorgement of management fees and allegedly unlawful profits, compensatory and punitive monetary damages, and plaintiffs' fees and expenses (including attorney and expert fees). The Class Action Complaint names the Alger-related defendants named in the Derivative Complaint as well as certain defendants not named in the Derivative Complaint, including certain entities affiliated with Alger

Management, certain Alger Mutual Funds, including the Fund, and certain additional former trustees and a former officer of the defendant Alger Mutual Funds. It alleges, on the basis of factual allegations similar to those of the Derivative Complaint with respect to the Alger defendants, (i) offenses by Alger defendants similar to those alleged in the Derivative Complaint, (ii) violations, by Alger Management, the Distributor, their affiliates, the funds named as defendants, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, and Section 34(b) of the Investment Company Act of 1940, (iii) breach of contract by the funds named as defendants, and (iv) unjust enrichment by all of the named defendants. It seeks relief similar to that sought in the Derivative Complaint.

On or about April 12, 2005, the Attorney General of the State of West Virginia filed a complaint in the Circuit Court of Marshall County, West Virginia against a number of mutual fund investment advisers, distributors and others, including Alger Management and the Distributor, alleging violations of the West Virginia Consumer Credit and Protection Act and other wrongful conduct. Insofar as the factual allegations in the complaint relate to Alger Management and the Distributor, they ascribe improper conduct to these entities relating to "market timing" in one or more of the Alger Mutual Funds. The complaint seeks injunctive relief, civil monetary penalties, costs and attorney fees, and other relief.

Alger Management continues to cooperate with the SEC and state investigations, which have not, as of the present date, been resolved. Although Alger Management does not believe that the Alger Mutual Funds are themselves targets of these regulators' investigations as potential enforcement defendants, the actions of Alger Management and certain of its affiliates and their senior executives and Alger Mutual Fund senior personnel are of interest to the investigators. Although no regulatory enforcement action has yet been commenced against Alger Management, board members or personnel in connection with the matters being investigated (other than the actions resolved in the fall of 2003 against James P. Connelly, Jr., former Vice Chairman of the Distributor), it is possible that the SEC and the states may pursue actions in the future. The potential timing of any such action or the relief or remedies that may be sought are not known at this time. Alger Management is not yet able to predict whether or on what terms matters might be resolved with the SEC or the states. The SEC and, in some cases, state government authorities have a variety of administrative and civil enforcement powers, including injunctive powers, authority to assess substantial fines and penalties and order restitution, authority to limit the activities of a person or company (including license and registration revocations, injunctive authority and prohibition from engaging in the investment or securities businesses) and other enforcement powers, that may be exercised administratively or by going into court.

Under Section 9(a) of the Investment Company Act, if any of the various regulatory investigations or lawsuits were to result in a court injunction against Alger Management or the Distributor, both companies would, in the absence of exemptive relief granted by the SEC, be barred from serving as investment adviser/sub-adviser or principal underwriter for any registered investment company, including the Fund. There is no assurance that such exemptive relief would be granted if sought. In addition, it is possible that these matters and/or other developments resulting from these matters could result in increased Fund redemptions, loss of Alger Management personnel or Fund board members, diversion of time and attention of Alger Management personnel, diminishment of financial resources of Alger Management, or other consequences potentially adverse to the Fund. Alger Management cannot predict the potential effect of such actions upon Alger Management or the Fund. There can be no assurance that the effect, if any, would not be material.

### Proxy Voting Policies

A description of the policies and procedures the Fund uses to determine how to vote proxies relating to portfolio securities and the proxy voting record is available, without charge, by calling (800) 992-3863 or online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov.

### Quarterly Fund Holdings

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. Forms N-Q are available online on the Fund's website at http://www.alger.com or on the SEC's website at http://www.sec.gov. The Portfolio's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

CREDIT SUISSE | ASSET MANAGEMENT

# CREDIT SUISSE FUNDS

## Semiannual Report

June 30, 2005
(unaudited)

### CREDIT SUISSE TRUST
### ■ EMERGING MARKETS PORTFOLIO

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the Prospectus, which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at 466 Lexington Ave., New York, NY 10017-3140. The Trust is advised by Credit Suisse Asset Management, LLC.

*The views of the Portfolio's management are as of the date of the letter and the Portfolio holdings described in this document are as of June 30, 2005; these views and Portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.*

*Portfolio shares are not deposits or other obligations of Credit Suisse Asset Management, LLC ("CSAM") or any affiliate, are not FDIC-insured and are not guaranteed by CSAM or any affiliate. Portfolio investments are subject to investment risk, including loss of your investment.*

July 22, 2005

Dear Shareholder:

For the six months ended June 30, 2005, Credit Suisse Trust—Emerging Markets Portfolio[1] (the "Portfolio") had a gain of 1.81%, versus an increase of 6.26% for the Morgan Stanley Capital International Emerging Markets Index.[2]

**Market Overview: 2004's rally extends**

The period was a positive one for emerging stock markets as a group, both in absolute terms and compared with developed stock markets, though the ride was less than smooth. Emerging markets initially rallied, but then turned sharply down in March on worries that rising US interest rates could threaten global growth. These fears subsided in the latter part of the period, with inflation appearing to be under control and as long-term US interest remained fairly stable. Investors' appetite for risk in general returned and emerging markets ended the period on a solid note.

By region, Latin America outperformed. Appreciation in Mexico and Brazil's currencies resulted in double-digit advances in these markets in US dollar terms. Argentina and Chile had solid gains, aided by high prices for the commodities they export. Performance in Asia was mixed. Taiwan had a gain but underperformed, while India was up about 9% as a controversial conglomerate management issue was resolved in June. Within the Eastern Europe/Middle East/Africa segment (EMEA), certain smaller markets such as Egypt had solid gains. Israel had a gain in local currency terms, but this translated into a loss for dollar-based investors as the shekel declined.

**Strategic Review: Underperformance in Asia**

We attribute the Fund's underperformance of its benchmark almost entirely to its positioning in Asia. Our Asian holdings collectively had a gain, but they trailed the benchmark's Asia component. Specifically, we were underweighted in Taiwanese technology-exporting companies, which outperformed the domestic companies we favored; underweighted in China's energy sector, which did well in the period, and had limited exposure to certain South Korean stocks that had strong showings. Within EMEA, relatively good performance from the Portfolio's Russian and South African holdings was countered by its underweighting in smaller markets such as Egypt that outperformed.

With respect to late-period portfolio activity, we reduced our exposure to Thailand, narrowing the degree of our overweighting, and added to Taiwan.

We remained neutrally weighted in South Korea, India, and Taiwan. We continued to underweight China. In Latin America, we remained underweight the region's smaller markets, though we increased our exposure to Chile, purchasing some bank stocks based on a better macroeconomic and policy environment. We maintained our overweightings in both Mexico and Brazil. Within EMEA, we were underweighted in the segment's small central European markets, except Hungary, where we had a modest overweight. At the end of the period we were neutral in Russia and Turkey and underweight in Israel and South Africa.

Looking ahead, we see potential for investors continuing to allocate to emerging markets, barring any unsettling factors such as a spike in long-term US interest rates or the threat of a major global slowdown. From a financial as well as a political perspective, fundamentals in many of these markets continue to improve in our view. Our focus remains on identifying stocks we deem to have good longer-term prospects.

The Credit Suisse Emerging Markets Team

Annabel Betz
Neil Gregson
Matthew J.K. Hickman
Elizabeth H. Eaton
Jonathan S. Ong
Emily Alejos

*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for emerging-market investments. The Portfolio may involve a greater degree of risk than other funds that seek capital growth by investing in larger, more-developed markets.*

*In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.*

## Average Annual Returns as of June 30, 2005[1]

| 1 Year | 5 Years | Since Inception | Inception Date |
|---|---|---|---|
| 26.69% | 1.64% | 5.48% | 12/31/97 |

*Returns represent past performance and include changes in share price and reinvestment of dividends and capital gains.* ***Past performance cannot guarantee future results.*** *The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or plan documents or other informational materials supplied by plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at www.csam.com/us.*

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[1] Fee waivers and/or expense reimbursements reduced expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued at any time.

[2] The Morgan Stanley Capital International Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. It is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

### Information About Your Portfolio's Expenses

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of $1,000 made at the beginning of the six month period ended June 30, 2005.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return**. This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

**Expenses and Value of a $1,000 Investment**
**for the six month period ended June 30, 2005**

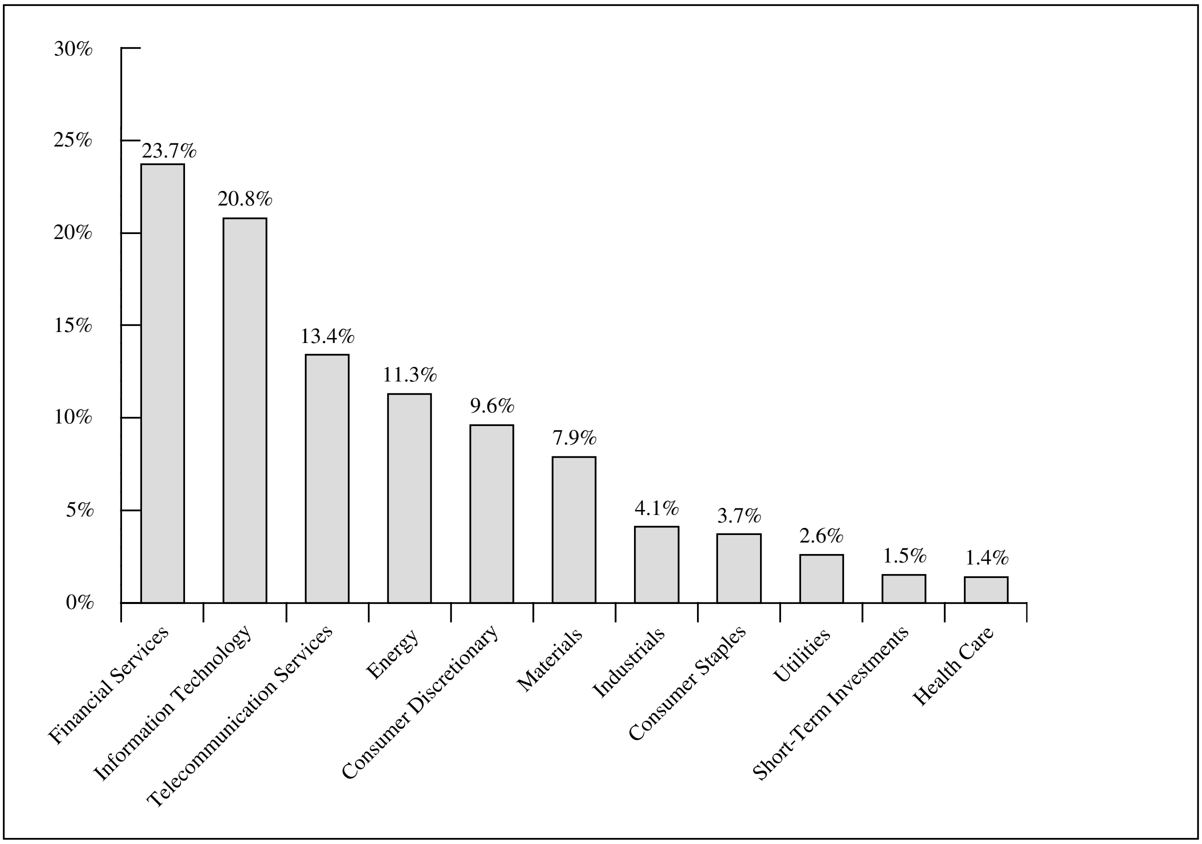
| | |
|---|---|
| **Actual Portfolio Return** | |
| Beginning Account Value 1/1/05 | $1,000.00 |
| Ending Account Value 6/30/05 | $1,018.10 |
| Expenses Paid per $1,000* | $ 7.01 |
| **Hypothetical 5% Portfolio Return** | |
| Beginning Account Value 1/1/05 | $1,000.00 |
| Ending Account Value 6/30/05 | $1,017.85 |
| Expenses Paid per $1,000* | $ 7.00 |
| **Annualized Expense Ratios*** | 1.40% |

* *Expenses are equal to the Portfolio's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 365.*

*The "Expenses Paid per $1,000" and the "Annualized Expense Ratios" in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio's actual expense would have been higher.*

For more information, please refer to the Portfolio's prospectus.

## SECTOR BREAKDOWN*




* Expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** (90.3%) | | |
| **Brazil** (3.7%) | | |
| *Aerospace & Defense* (0.0%) | | |
| Empresa Brasileira de Aeronautica SA ADR | 500 | $ 16,535 |
| *Beverages* (0.1%) | | |
| Companhia de Bebidas das Americas ADR§ | 4,640 | 118,134 |
| *Diversified Telecommunication Services* (0.8%) | | |
| Brasil Telecom Participacoes SA | 30,400,000 | 330,583 |
| Brasil Telecom Participacoes SA ADR | 8,900 | 321,290 |
| Tele Norte Leste Participacoes SA | 12,505 | 286,003 |
| | | 937,876 |
| *Oil & Gas* (2.0%) | | |
| Petroleo Brasileiro SA - Petrobras ADR§ | 54,400 | 2,504,576 |
| *Paper & Forest Products* (0.5%) | | |
| Aracruz Celulose SA ADR | 9,800 | 340,550 |
| Votorantim Celulose e Papel SA ADR§ | 21,000 | 254,100 |
| | | 594,650 |
| *Water Utilities* (0.3%) | | |
| Companhia de Saneamento Basico do Estado de Sao Paulo | 5,800,000 | 347,509 |
| *TOTAL BRAZIL* | | 4,519,280 |
| **Chile** (1.7%) | | |
| *Banks* (0.3%) | | |
| Banco Santander Chile SA ADR | 11,600 | 374,680 |
| *Beverages* (0.5%) | | |
| Compania Cervecerias Unidas SA ADR§ | 25,500 | 612,000 |
| *Diversified Telecommunication Services* (0.4%) | | |
| Compania de Telecomunicaciones de Chile SA ADR | 50,200 | 510,534 |
| *Electric Utilities* (0.5%) | | |
| Enersis SA ADR | 51,600 | 538,704 |
| *TOTAL CHILE* | | 2,035,918 |
| **China** (4.8%) | | |
| *Airlines* (0.5%) | | |
| Air China, Ltd. Series H* | 1,710,000 | 575,088 |
| *Communications Equipment* (0.7%) | | |
| ZTE Corp. Class H | 315,400 | 938,214 |
| *Industrial Conglomerates* (0.4%) | | |
| Golden Meditech Company, Ltd. | 2,703,000 | 465,956 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Insurance* (1.1%) | | |
| China Life Insurance Company, Ltd. Series H* | 2,051,000 | $ 1,396,645 |
| *Machinery* (0.4%) | | |
| Shanghai Electric Group Company, Ltd. Series H* | 2,032,000 | 460,077 |
| *Oil & Gas* (1.2%) | | |
| China Petroleum & Chemical Corp. Series H | 2,378,000 | 926,648 |
| Sinopec Zhenhai Refining & Chemical Company, Ltd. Series H | 539,300 | 507,073 |
| | | 1,433,721 |
| *Textiles & Apparel* (0.5%) | | |
| Ports Design, Ltd. | 805,000 | 582,691 |
| *TOTAL CHINA* | | 5,852,392 |
| **Colombia** (0.5%) | | |
| *Banks* (0.5%) | | |
| Bancolombia SA ADR | 39,600 | 633,204 |
| *TOTAL COLOMBIA* | | 633,204 |
| **Egypt** (0.6%) | | |
| *Wireless Telecommunication Services* (0.6%) | | |
| Orascom Telecom Holding SAE | 7,700 | 780,302 |
| *TOTAL EGYPT* | | 780,302 |
| **Hong Kong** (1.7%) | | |
| *Oil & Gas* (0.5%) | | |
| CNOOC, Ltd. | 1,083,000 | 638,198 |
| *Wireless Telecommunication Services* (1.2%) | | |
| China Mobile (Hong Kong), Ltd. | 403,500 | 1,494,752 |
| *TOTAL HONG KONG* | | 2,132,950 |
| **Hungary** (1.6%) | | |
| *Banks* (0.8%) | | |
| OTP Bank Rt. | 29,900 | 1,012,084 |
| *Oil & Gas* (0.8%) | | |
| MOL Magyar Olaj-es Gazipari Rt. | 11,400 | 955,676 |
| *TOTAL HUNGARY* | | 1,967,760 |
| **India** (5.7%) | | |
| *Chemicals* (0.8%) | | |
| Reliance Industries, Ltd. GDR Rule 144A‡ | 35,000 | 1,018,850 |
| *Diversified Financials* (0.5%) | | |
| ICICI Bank, Ltd. ADR | 26,500 | 579,025 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Diversified Telecommunication Services* (1.1%) | | |
| Bharti Tele-Ventures, Ltd.* | 240,500 | $ 1,341,155 |
| *Electric Utilities* (0.6%) | | |
| National Thermal Power Corporation, Ltd. | 358,400 | 684,755 |
| *Electrical Equipment* (0.5%) | | |
| Bharat Heavy Electricals, Ltd. | 34,300 | 681,570 |
| *Gas Utilities* (0.5%) | | |
| Gail India, Ltd. | 114,700 | 598,830 |
| *IT Consulting & Services* (1.3%) | | |
| Infosys Technologies, Ltd. ADR | 11,100 | 859,917 |
| Tata Consultancy Services, Ltd. | 22,622 | 702,041 |
| | | 1,561,958 |
| *Oil & Gas* (0.4%) | | |
| Cairn Energy PLC* | 20,500 | 494,085 |
| *TOTAL INDIA* | | 6,960,228 |
| **Indonesia** (1.8%) | | |
| *Banks* (0.2%) | | |
| PT Bank Central Asia Tbk | 677,500 | 249,094 |
| *Diversified Telecommunication Services* (0.8%) | | |
| PT Indosat Tbk | 1,614,500 | 912,075 |
| *Wireless Telecommunication Services* (0.8%) | | |
| PT Telekomunikasi Indonesia | 1,994,500 | 1,030,875 |
| *TOTAL INDONESIA* | | 2,192,044 |
| **Israel** (3.2%) | | |
| *Banks* (0.7%) | | |
| Bank Hapoalim, Ltd. | 253,700 | 796,552 |
| *Electronic Equipment & Instruments* (0.5%) | | |
| Orbotech, Ltd.* | 30,500 | 655,445 |
| *Insurance* (0.3%) | | |
| Harel Insurance Investments, Ltd. | 11,000 | 394,010 |
| *Internet Software & Services* (0.7%) | | |
| Check Point Software Technologies, Ltd.* | 42,700 | 845,460 |
| *Pharmaceuticals* (1.0%) | | |
| Teva Pharmaceutical Industries, Ltd. ADR | 39,000 | 1,214,460 |
| *TOTAL ISRAEL* | | 3,905,927 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| **Malaysia** (3.5%) | | |
| *Banks* (2.0%) | | |
| Commerce Asset-Holding Berhad | 875,000 | $ 1,161,237 |
| Public Bank Berhad | 711,300 | 1,254,134 |
| | | 2,415,371 |
| *Diversified Telecommunication Services* (0.7%) | | |
| Telekom Malaysia Berhad | 356,400 | 936,048 |
| *Energy Equipment & Services* (0.3%) | | |
| Scomi Group Berhad | 997,900 | 390,702 |
| *Wireless Telecommunication Services* (0.5%) | | |
| Maxis Communications Berhad | 236,500 | 602,989 |
| *TOTAL MALAYSIA* | | 4,345,110 |
| **Mexico** (7.5%) | | |
| *Beverages* (0.6%) | | |
| Fomento Economico Mexicano SA de CV ADR | 12,777 | 761,126 |
| *Construction Materials* (1.0%) | | |
| Cemex SA de CV ADR | 29,481 | 1,250,584 |
| *Diversified Telecommunication Services* (0.6%) | | |
| Telefonos de Mexico SA de CV ADR§ | 39,800 | 751,822 |
| *Food Products* (0.7%) | | |
| Gruma SA Series B | 181,500 | 423,428 |
| Grupo Bimbo SA de CV Series A | 169,200 | 485,765 |
| | | 909,193 |
| *Household Durables* (0.7%) | | |
| Consorcio ARA SA de CV | 230,400 | 795,043 |
| *Media* (0.6%) | | |
| Grupo Televisa SA ADR | 10,700 | 664,363 |
| *Metals & Mining* (0.4%) | | |
| Grupo Mexico SA de CV Series B* | 286,050 | 465,942 |
| *Multiline Retail* (0.5%) | | |
| Wal-Mart de Mexico SA de CV Series V | 161,082 | 652,672 |
| *Real Estate* (0.8%) | | |
| Desarrolladora Homex SA de CV ADR*§ | 14,500 | 397,590 |
| Urbi Desarrollos Urbanos SA de CV* | 107,424 | 589,415 |
| | | 987,005 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Wireless Telecommunication Services* (1.6%) | | |
| America Movil SA de CV ADR Series L | 27,958 | $ 1,666,576 |
| America Telecom SA de CV Class A1* | 101,700 | 324,428 |
| | | 1,991,004 |
| *TOTAL MEXICO* | | 9,228,754 |
| **Peru** (0.1%) | | |
| *Banks* (0.1%) | | |
| Credicorp, Ltd. | 3,000 | 59,670 |
| *TOTAL PERU* | | 59,670 |
| **Russia** (4.5%) | | |
| *Banks* (1.0%) | | |
| Sberbank RF | 1,950 | 1,281,731 |
| *Oil & Gas* (2.4%) | | |
| Lukoil ADR | 67,600 | 2,488,356 |
| Sibir Energy PLC* | 116,000 | 418,967 |
| | | 2,907,323 |
| *Wireless Telecommunication Services* (1.1%) | | |
| AO VimpelCom ADR*§ | 40,600 | 1,381,618 |
| *TOTAL RUSSIA* | | 5,570,672 |
| **Singapore** (0.3%) | | |
| *Chemicals* (0.3%) | | |
| Hi-P International, Ltd.§ | 497,000 | 422,647 |
| *TOTAL SINGAPORE* | | 422,647 |
| **South Africa** (9.5%) | | |
| *Banks* (2.1%) | | |
| FirstRand, Ltd. | 459,782 | 953,812 |
| Standard Bank Group, Ltd. | 168,800 | 1,629,711 |
| | | 2,583,523 |
| *Diversified Telecommunication Services* (0.6%) | | |
| Telkom South Africa, Ltd. | 49,270 | 789,574 |
| *Household Durables* (0.9%) | | |
| Steinhoff International Holdings, Ltd. | 464,797 | 1,068,426 |
| *Industrial Conglomerates* (0.5%) | | |
| Bidvest Group, Ltd. | 54,200 | 588,349 |
| *Insurance* (0.7%) | | |
| Sanlam, Ltd. | 515,700 | 904,573 |

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Media* (0.9%) | | |
| Naspers, Ltd. N Shares | 87,200 | $ 1,080,970 |
| *Metals & Mining* (2.2%) | | |
| African Rainbow Minerals, Ltd.* | 85,447 | 433,400 |
| First Quantum Minerals, Ltd. | 34,600 | 610,472 |
| Impala Platinum Holdings, Ltd. | 10,800 | 962,829 |
| Kumba Resources, Ltd. | 79,240 | 688,979 |
| | | 2,695,680 |
| *Oil & Gas* (0.5%) | | |
| Sasol | 24,800 | 668,358 |
| *Specialty Retail* (1.1%) | | |
| Edgars Consolidated Stores, Ltd. | 11,246 | 486,816 |
| JD Group, Ltd. | 86,100 | 826,789 |
| | | 1,313,605 |
| *TOTAL SOUTH AFRICA* | | 11,693,058 |
| **South Korea** (16.1%) | | |
| *Auto Components* (0.7%) | | |
| Hyundai Mobis | 13,770 | 921,099 |
| *Automobiles* (2.1%) | | |
| Hyundai Motor Company, Ltd. | 46,110 | 2,542,522 |
| *Banks* (2.9%) | | |
| Kookmin Bank | 50,110 | 2,263,722 |
| Shinhan Financial Group Company, Ltd. | 48,960 | 1,262,833 |
| | | 3,526,555 |
| *Construction & Engineering* (0.1%) | | |
| GS Engineering & Construction Corp. | 5,500 | 180,923 |
| *Household Durables* (1.1%) | | |
| LG Electronics, Inc. | 20,730 | 1,304,612 |
| *Insurance* (0.6%) | | |
| Samsung Fire & Marine Insurance Company, Ltd. | 8,640 | 694,478 |
| *Metals & Mining* (0.9%) | | |
| POSCO ADR§ | 26,800 | 1,178,396 |
| *Multiline Retail* (0.7%) | | |
| Shinsegae Company, Ltd. | 2,700 | 847,851 |
| *Semiconductor Equipment & Products* (6.3%) | | |
| Samsung Electronics Company, Ltd. | 16,410 | 7,779,219 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Wireless Telecommunication Services* (0.7%) | | |
| SK Telecom Company, Ltd. | 5,040 | $ 886,352 |
| *TOTAL SOUTH KOREA* | | 19,862,007 |
| **Spain** (0.5%) | | |
| *Oil & Gas* (0.5%) | | |
| Repsol YPF, SA ADR | 24,500 | 615,685 |
| *TOTAL SPAIN* | | 615,685 |
| **Taiwan** (18.1%) | | |
| *Automobiles* (0.4%) | | |
| China Motor Corp. | 505,000 | 521,238 |
| *Banks* (0.8%) | | |
| E.Sun Financial Holding Company, Ltd. | 1,220,000 | 976,304 |
| *Chemicals* (0.5%) | | |
| Formosa Plastics Corp. | 376,050 | 615,198 |
| *Computers & Peripherals* (4.1%) | | |
| Advantech Company, Ltd. | 579,394 | 1,370,757 |
| Chi Mei Optoelectronics Corp. | 657,000 | 1,020,076 |
| Chi Mei Optoelectronics Corp. GDR Rule 144A‡ | 79,200 | 1,234,728 |
| LITE-ON IT Corp. | 582,000 | 1,078,223 |
| Quanta Computer, Inc. | 165,000 | 315,146 |
| | | 5,018,930 |
| *Diversified Financials* (0.7%) | | |
| Polaris Securities Co., Ltd. | 1,842,000 | 912,856 |
| *Diversified Telecommunication Services* (0.5%) | | |
| Chungwha Telecom Company, Ltd. | 320,000 | 653,756 |
| *Electronic Equipment & Instruments* (2.7%) | | |
| AU Optronics Corp. ADR*§ | 129,600 | 2,195,424 |
| Hon Hai Precision Industry Company, Ltd. | 218,000 | 1,132,088 |
| | | 3,327,512 |
| *Insurance* (1.9%) | | |
| Cathay Financial Holding Company, Ltd. | 825,000 | 1,659,830 |
| Shin Kong Financial Holding Company, Ltd. | 620,000 | 624,195 |
| | | 2,284,025 |
| *Marine* (0.5%) | | |
| Yang Ming Marine Transport | 674,000 | 599,112 |
| *Real Estate* (0.7%) | | |
| Cathay Real Estate Development Company, Ltd. | 1,891,000 | 862,918 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| *Semiconductor Equipment & Products* (5.3%) | | |
| Advanced Semiconductor Engineering, Inc. | 1,209,000 | $ 900,769 |
| Sunplus Technology Company, Ltd. | 522,000 | 735,201 |
| Taiwan Semiconductor Manufacturing Company, Ltd. | 2,827,642 | 4,932,105 |
| | | 6,568,075 |
| *TOTAL TAIWAN* | | 22,339,924 |
| **Thailand** (3.2%) | | |
| *Banks* (1.7%) | | |
| Bangkok Bank Public Company, Ltd. | 454,800 | 1,183,874 |
| Siam City Bank Public Company, Ltd. | 1,414,300 | 894,379 |
| | | 2,078,253 |
| *Construction & Engineering* (0.5%) | | |
| Italian - Thai Development Public Company, Ltd. | 2,697,600 | 626,742 |
| *Oil & Gas* (1.0%) | | |
| Thai Oil Public Company, Ltd. | 765,900 | 1,177,024 |
| *TOTAL THAILAND* | | 3,882,019 |
| **Turkey** (1.7%) | | |
| *Banks* (1.0%) | | |
| Akbank T.A.S. | 121,833 | 691,780 |
| Turkiye Garanti Bankasi AS* | 144,705 | 613,709 |
| | | 1,305,489 |
| *Industrial Conglomerates* (0.7%) | | |
| Koc Holding AS | 194,221 | 847,171 |
| *TOTAL TURKEY* | | 2,152,660 |
| **TOTAL COMMON STOCKS** (Cost $92,249,322) | | 111,152,211 |
| **PREFERRED STOCKS** (7.6%) | | |
| **Brazil** (7.6%) | | |
| *Banks* (1.2%) | | |
| Banco Bradesco SA | 17,840 | 628,989 |
| Banco Itau Holding Financeira SA | 4,870 | 890,892 |
| | | 1,519,881 |
| *Beverages* (0.5%) | | |
| Companhia de Bebidas das Americas ADR | 20,700 | 639,630 |
| *Chemicals* (0.3%) | | |
| Braskem SA Class A | 38,000 | 314,588 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **PREFERRED STOCKS** | | |
| *Diversified Telecommunication Services* (1.1%) | | |
| Telemar Norte Leste SA Class A | 34,400 | $ 821,580 |
| Telesp – Telecomunicacoes de Sao Paolo S.A. | 25,000 | 506,669 |
| | | 1,328,249 |
| *Electric Utilities* (0.8%) | | |
| AES Tiete SA | 57,000,000 | 1,013,762 |
| *Industrial Conglomerates* (0.8%) | | |
| Bradespar SA | 16,400 | 279,526 |
| Itausa - Investimentos Itau SA | 324,496 | 698,048 |
| | | 977,574 |
| *Metals & Mining* (2.1%) | | |
| Companhia Vale do Rio Doce ADR | 80,600 | 2,047,240 |
| Usinas Siderurgicas de Minas Gerais SA Series A | 30,200 | 487,241 |
| | | 2,534,481 |
| *Oil & Gas* (0.8%) | | |
| Petroleo Brasileiro SA - Petrobras ADR | 19,600 | 1,021,748 |
| **TOTAL PREFERRED STOCKS** (Cost $6,747,810) | | 9,349,913 |
| **RIGHT** (0.0%) | | |
| **Thailand** (0.0%) | | |
| *Diversified Telecommunication Services* (0.0%) | | |
| True Corporation Public Company, Ltd. strike price $13.93, expires 4/08*^ (Cost $0) | 50,021 | 0 |
| **SHORT-TERM INVESTMENTS** (5.9%) | | |
| State Street Navigator Prime Fund§§ | 5,479,938 | 5,479,938 |
| | **Par (000)** | |
| State Street Bank and Trust Co. Euro Time Deposit, 2.100%, 7/01/05 | $ 1,849 | 1,849,000 |
| **TOTAL SHORT-TERM INVESTMENTS** (Cost $7,328,938) | | 7,328,938 |
| **TOTAL INVESTMENTS AT VALUE** (103.8%) (Cost $106,326,070) | | 127,831,062 |
| **LIABILITIES IN EXCESS OF OTHER ASSETS** (-3.8%) | | (4,702,226) |
| **NET ASSETS** (100.0%) | | $123,128,836 |

See Accompanying Notes to Financial Statements.

**INVESTMENT ABBREVIATIONS**
ADR = American Depositary Receipt
GDR = Global Depositary Receipt

* Non-income producing security.
‡ Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2005, these securities amounted to a value of $2,253,578 or 1.83% of net assets.
^ Not readily marketable security; security is valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees.
§ Security or portion thereof is out on loan.
§§ Represents security purchased with cash collateral received for securities on loan.

See Accompanying Notes to Financial Statements.

# Credit Suisse Trust – Emerging Markets Portfolio
## Statement of Assets and Liabilities
June 30, 2005 (unaudited)

| | |
|---|---|
| ***Assets*** | |
| Investments at value, including collateral for securities on loan of $5,479,938 (Cost $106,326,070) (Note 2) | $ 127,831,062[1] |
| Cash | 968 |
| Foreign currency at value (Cost $511,794) | 511,019 |
| Receivable for investments sold | 591,334 |
| Dividend and interest receivable | 488,557 |
| Receivable for portfolio shares sold | 39,523 |
| Prepaid expenses and other assets | 4,985 |
| Total Assets | 129,467,448 |
| ***Liabilities*** | |
| Advisory fee payable (Note 3) | 101,704 |
| Administrative services fee payable (Note 3) | 13,990 |
| Payable upon return of securities loaned (Note 2) | 5,479,938 |
| Payable for investments purchased | 509,843 |
| Deferred foreign tax liability (Note 2) | 141,383 |
| Payable for portfolio shares redeemed | 12,484 |
| Other accrued expenses payable | 79,270 |
| Total Liabilities | 6,338,612 |
| ***Net Assets*** | |
| Capital stock, $0.001 par value (Note 6) | 9,128 |
| Paid-in capital (Note 6) | 100,294,432 |
| Undistributed net investment income | 1,671,975 |
| Accumulated net realized loss on investments and foreign currency transactions | (210,277) |
| Net unrealized appreciation from investments and foreign currency translations | 21,363,578 |
| Net Assets | $ 123,128,836 |
| Shares outstanding | 9,127,715 |
| Net asset value, offering price, and redemption price per share | $13.49 |

[1] Including $5,337,451 of securities on loan.

See Accompanying Notes to Financial Statements.

# Credit Suisse Trust – Emerging Markets Portfolio
## Statement of Operations
For the Six Months Ended June 30, 2005 (unaudited)

| | |
|---|---|
| ***Investment Income*** (Note 2) | |
| Dividends | $ 2,085,263 |
| Interest | 26,723 |
| Securities lending | 15,925 |
| Foreign taxes withheld | (247,656) |
| Total investment income | 1,880,255 |
| ***Expenses*** | |
| Investment advisory fees (Note 3) | 745,549 |
| Administrative services fees (Note 3) | 104,249 |
| Custodian fees | 53,818 |
| Printing fees (Note 3) | 29,885 |
| Legal fees | 15,277 |
| Audit fees | 11,666 |
| Transfer agent fees | 3,184 |
| Insurance expense | 3,058 |
| Registration fees | 973 |
| Trustees' fees | 1,176 |
| Commitment fees (Note 4) | 1,189 |
| Miscellaneous expense | 9,121 |
| Total expenses | 979,145 |
| Less: fees waived (Note 3) | (144,130) |
| Net expenses | 835,015 |
| Net investment income | 1,045,240 |
| ***Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items*** | |
| Net realized gain from investments (including Thailand Capital Gain Tax of $147,284) | 6,289,276 |
| Net realized loss from foreign currency transactions | (155,381) |
| Net change in unrealized appreciation (depreciation) from investments | (5,257,999) |
| Net change in unrealized appreciation (depreciation) from foreign currency translations | 79,714 |
| Net realized and unrealized gain from investments and foreign currency related items | 955,610 |
| Net increase in net assets resulting from operations | $ 2,000,850 |

See Accompanying Notes to Financial Statements.

# Credit Suisse Trust – Emerging Markets Portfolio
## Statements of Changes in Net Assets

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 |
|---|---|---|
| ***From Operations*** | | |
| Net investment income | $ 1,045,240 | $ 1,061,862 |
| Net realized gain from investments and foreign currency transactions | 6,133,895 | 11,247,576 |
| Net change in unrealized appreciation (depreciation) from investments and foreign currency translations | (5,178,285) | 8,162,457 |
| Net increase in net assets resulting from operations | 2,000,850 | 20,471,895 |
| ***From Dividends*** | | |
| Dividends from net investment income | — | (257,121) |
| Net decrease in net assets resulting from dividends | — | (257,121) |
| ***From Capital Share Transactions*** (Note 6) | | |
| Proceeds from sale of shares | 27,784,349 | 48,651,946 |
| Reinvestment of dividends | — | 257,121 |
| Net asset value of shares redeemed | (21,880,488) | (27,681,607) |
| Net increase in net assets from capital share transactions | 5,903,861 | 21,227,460 |
| Net increase in net assets | 7,904,711 | 41,442,234 |
| ***Net Assets*** | | |
| Beginning of period | 115,224,125 | 73,781,891 |
| End of period | $123,128,836 | $115,224,125 |
| *Undistributed net investment income* | $ 1,671,975 | $ 626,735 |

See Accompanying Notes to Financial Statements.

# Credit Suisse Trust – Emerging Markets Portfolio
## Financial Highlights
(For a Share of the Portfolio Outstanding Throughout Each Period)

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Per share data** | | | | | | |
| Net asset value, beginning of period | $ 13.25 | $ 10.63 | $ 7.44 | $ 8.43 | $ 9.33 | $ 14.18 |
| ***INVESTMENT OPERATIONS*** | | | | | | |
| Net investment income | 0.11 | 0.12 | 0.07 | 0.01 | 0.06 | 0.23 |
| Net gain (loss) on investments and foreign currency related items (both realized and unrealized) | 0.13 | 2.53 | 3.12 | (0.98) | (0.96) | (4.70) |
| Total from investment operations | 0.24 | 2.65 | 3.19 | (0.97) | (0.90) | (4.47) |
| ***LESS DIVIDENDS AND DISTRIBUTIONS*** | | | | | | |
| Dividends from net investment income | — | (0.03) | — | (0.02) | — | (0.20) |
| Distributions from net realized gains | — | — | — | — | — | (0.15) |
| Return of capital | — | — | — | — | — | (0.03) |
| Total dividends and distributions | — | (0.03) | — | (0.02) | — | (0.38) |
| ***Net asset value, end of period*** | $ 13.49 | $ 13.25 | $ 10.63 | $ 7.44 | $ 8.43 | $ 9.33 |
| Total return[1] | 1.81% | 25.02% | 42.88% | (11.56)% | (9.65)% | (31.55)% |
| ***RATIOS AND SUPPLEMENTAL DATA*** | | | | | | |
| Net assets, end of period (000s omitted) | $123,129 | $115,224 | $73,782 | $43,867 | $38,331 | $32,604 |
| Ratio of expenses to average net assets | 1.40%[2] | 1.40% | 1.40% | 1.40% | 1.40% | 1.42% |
| Ratio of net investment income to average net assets | 1.75%[2] | 1.21% | 0.94% | 0.13% | 0.63% | 2.45% |
| Decrease reflected in above operating expense ratios due to waivers | 0.24%[2] | 0.29% | 0.41% | 0.44% | 0.49% | 0.27% |
| Portfolio turnover rate | 57% | 121% | 167% | 128% | 130% | 208% |

[1] Total returns are historical and assume changes in share price and reinvestment of all dividends and distributions. Had certain expenses not been reduced during the periods shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan. Total returns for periods less than one year are not annualized.

[2] Annualized.

See Accompanying Notes to Financial Statements.

## Note 1. Organization

Credit Suisse Trust (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers eight managed investment portfolios of which one, the Emerging Markets Portfolio (the "Portfolio"), is included in this report. The Portfolio is a diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of The Commonwealth of Massachusetts as a business trust on March 15, 1995.

## Note 2. Significant Accounting Policies

A) SECURITY VALUATION – The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the "Exchange") on each day the Exchange is open for business. The Portfolio's equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the "Valuation Time"). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio's Valuation Time but after the close of the securities' primary markets, are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio may utilize a service provided by an

**Note 2. Significant Accounting Policies**

independent third party which has been approved by the Board of Trustees to fair value certain securities.

B) FOREIGN CURRENCY TRANSACTIONS – The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in *equity* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of equity securities. The Portfolio isolates that portion of realized gains and losses on investments in *debt* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME – Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS – Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carryforward, such gain will not be distributed. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America (“GAAP”).

E) FEDERAL INCOME TAXES – No provision is made for federal taxes as it is the Trust’s intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

**Note 2. Significant Accounting Policies**

F) USE OF ESTIMATES – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT-TERM INVESTMENTS – The Portfolio, together with other funds/ portfolios advised by Credit Suisse Asset Management, LLC ("CSAM"), an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company ("SSB"), the Portfolio's custodian, or a money market fund advised by CSAM. The short-term time deposit issued by SSB is a variable rate account classified as a short-term investment.

H) FORWARD FOREIGN CURRENCY CONTRACTS – The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily forward exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At June 30, 2005, the Portfolio had no open forward foreign currency contracts.

I) SECURITIES LENDING – Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan (including any accrued interest thereon) and 105% of the market value of foreign securities on loan (including any accrued interest thereon). Cash collateral received by the Portfolio in connection with securities lending activity may be pooled together with cash collateral for other funds/portfolios advised by CSAM and may be invested in a variety of investments, including certain CSAM–advised funds, funds advised by SSB, the Portfolio's securities lending agent, or money market instruments. However, in the event of default or bankruptcy by the other party to the

**Note 2. Significant Accounting Policies**

agreement, realization and/or retention of the collateral may be subject to legal proceedings.

SSB has been engaged by the Portfolio to act as the Portfolio's securities lending agent. The Portfolio's securities lending arrangement provides that the Portfolio and SSB will share the net income earned from the securities lending activities. During the six months ended June 30, 2005, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $106,928, of which $84,265 was rebated to borrowers (brokers). The Portfolio retained $15,925 from the cash collateral investment, and SSB, as lending agent, was paid $6,738. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

J) OTHER – The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

The Portfolio's investments in securities of issuers located in less developed countries considered to be "emerging markets" involve risks in addition to those generally applicable to foreign securities. Focusing on emerging (less developed) markets involves higher levels of risk, including increased currency, information, liquidity, market, political and valuation risks. Deficiencies in regulatory oversight, market infrastructure, shareholder protections and company laws could expose the Portfolio to operational and other risks as well. Some countries may have restrictions that could limit the Portfolio's access to attractive investment opportunities. Additionally, emerging markets often face serious economic problems (such as high external debt, inflation and unemployment) that could subject the Portfolio to increased volatility or substantial declines in value.

The Portfolio may be subject to taxes imposed by countries in which it invests, with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and

**Note 2. Significant Accounting Policies**

capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income or capital gains are earned.

**Note 3. Transactions with Affiliates and Related Parties**

CSAM serves as investment adviser for the Portfolio. For its investment advisory services, CSAM is entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. For the six months ended June 30, 2005, investment advisory fees earned and voluntarily waived for the Portfolio were $745,549 and $144,130, respectively.

Credit Suisse Asset Management Limited (CSAM U.K.) ("CSAM U.K.") and Credit Suisse Asset Management Limited (CSAM Australia) ("CSAM Australia"), each an affiliate of CSAM, are sub-investment advisers to the Portfolio (the "Sub-Advisers"). CSAM U.K and CSAM Australia's sub-investment advisory fees are paid by CSAM out of CSAM's net investment advisory fee and are not paid by the Portfolio.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of CSAM, and SSB serve as co-administrators to the Portfolio.

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of 0.10% of the Portfolio's average daily net assets. For the six months ended June 30, 2005, co-administrative services fees earned by CSAMSI were $59,644.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, calculated in total for all the Credit Suisse funds/portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the six months ended June 30, 2005, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $44,605.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolio's shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of CSAM, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the six months ended June 30, 2005, Merrill was paid $7,383 for its services to the Portfolio.

### Note 4. Line of Credit

The Portfolio, together with other funds/portfolios advised by CSAM (collectively, the "Participating Funds"), participates in a $75 million committed, unsecured line of credit facility ("Credit Facility") for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At June 30, 2005 and during the six months ended June 30, 2005, the Portfolio had no borrowings under the Credit Facility.

### Note 5. Purchases and Sales of Securities

For the six months ended June 30, 2005, purchases and sales of investment securities (excluding short-term investments) were $75,610,989 and $66,266,447, respectively.

At June 30, 2005, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were $106,326,070, $23,710,131, $(2,205,139) and $21,504,992, respectively.

### Note 6. Capital Share Transactions

The Trust is authorized to issue an unlimited number of full and fractional shares of beneficial interest, $.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 |
|---|---|---|
| Shares sold | 2,085,749 | 4,217,158 |
| Shares issued in reinvestment of dividends | — | 23,459 |
| Shares redeemed | (1,655,246) | (2,483,712) |
| Net increase | 430,503 | 1,756,905 |

### Note 6. Capital Share Transactions

On June 30, 2005, the number of shareholders that held 5% or more of the outstanding shares was as follows:

| Number of Shareholders | Approximate Percentage of Outstanding Shares |
|---|---|
| 5 | 94% |

Some of the shareholders are omnibus accounts, which hold shares on behalf of individual shareholders.

### Note 7. Contingencies

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

Important Privacy Choices for Consumers

We are committed to maintaining the privacy of every current and prospective customer. We recognize that you entrust important personal information to us, and we wish to assure you that we take seriously our responsibilities in protecting and safeguarding this information.

In connection with making available investment products and services to current and potential customers, we may obtain nonpublic personal information about you. This information may include your name, address, e-mail address, social security number, account number, assets, income, financial situation, transaction history and other personal information.

We may collect nonpublic information about you from the following sources:

- Information we receive on applications, forms, questionnaires, web sites, agreements or in the course of establishing or maintaining a customer relationship; and
- Information about your transactions with us, our affiliates, or others.

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except with your consent or as otherwise permitted by law.

**Restrict Information Sharing with Affiliates:** In cases where we believe that additional products and services may be of interest to you, we may share the information described above with our affiliates unless you say "No."

☐ No, please do not share personal and financial information with your affiliated companies. [If you check this box, you must send this notice back to us with your name, address and account number to Credit Suisse Funds, 466 Lexington Avenue, New York, New York 10017.]

We may also disclose this information to firms that perform services on our behalf. These agents and service providers are required to treat the information confidentially and use it only for the purpose for which it is provided.

We restrict access to nonpublic personal information about you to those employees, agents or other parties who need to know that information to provide products or services to you or in connection with your investments with or through us. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

*Note: This Notice is provided to clients and prospective clients of Credit Suisse Asset Management, LLC ("CSAM"), and Credit Suisse Asset Management Securities, Inc., and shareholders and prospective shareholders in CSAM-sponsored an advised investment companies, including Credit Suisse Funds, and other consumers and customers, as applicable. This Notice is not intended to be incorporated in any offering materials but is merely a statement of our current Privacy Policy, and may be amended from time to time upon notice to you. This Notice is dated as of May 17, 2005.*

**Credit Suisse Trust – Emerging Markets Portfolio**
**Proxy Voting and Portfolio Holdings Information (unaudited)**

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30 of each year as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, www.csam.com/us
- On the website of the Securities and Exchange Commission, http://www.sec.gov.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.csam.com/us

CREDIT SUISSE ASSET MANAGEMENT

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TREMK-SAR-0605

CREDIT SUISSE | ASSET MANAGEMENT

# CREDIT SUISSE FUNDS

## Semiannual Report

June 30, 2005
(unaudited)

### CREDIT SUISSE TRUST
### ■ GLOBAL SMALL CAP PORTFOLIO

Credit Suisse Trust (the "Trust") shares are not available directly to individual investors, but may be offered only through certain insurance products and pension and retirement plans.

The Trust's investment objectives, risks, charges and expenses (which should be considered carefully before investing), and more complete information about the Trust, are provided in the *Prospectus,* which should be read carefully before investing. You may obtain additional copies by calling 800-222-8977 or by writing to Credit Suisse Trust, P.O. Box 55030, Boston, MA 02205-5030.

Credit Suisse Asset Management Securities, Inc., Distributor, is located at 466 Lexington Ave., New York, NY 10017-3140. The Trust is advised by Credit Suisse Asset Management, LLC.

*The views of the Portfolio's management are as of the date of the letter and the Portfolio holdings described in this document are as of June 30, 2005; these views and Portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.*

*Portfolio shares are not deposits or other obligations of Credit Suisse Asset Management, LLC ("CSAM") or any affiliate, are not FDIC-insured and are not guaranteed by CSAM or any affiliate. Portfolio investments are subject to investment risks, including loss of your investment.*

July 22, 2005

Dear Shareholder:

For the six months ended June 30, 2005, Credit Suisse Trust—Global Small Cap Portfolio*[,1] (the "Portfolio") had a gain of 4.93%, versus an increase of 1.70% for the Russell MidCap® Growth Index[2], an increase of 0.68% for the Morgan Stanley Capital International World Small Cap Index[2] (Price Only), and a decline of 1.75% for the Morgan Stanley World Index.[2]

**The Market: Fighting Headwinds**

The US equity market struggled in the first half of 2005, though performance improved in the year's second quarter. Higher energy prices and gradually tightening monetary policy seemed to top the list of investor concerns. One clear winner in the stock market for the period was the energy sector, buoyed by the rise in oil prices. Most other economic sectors had losses for the six months. Outside the US, markets generally performed better, at least in local-currency terms, due in part to more supportive interest-rate backdrops. However, for dollar-based investors these gains were reduced or even turned into losses due to weakness in foreign currencies vs. the dollar in the period. Emerging stock markets performed well, aided by a late-period easing of risk factors.

**Strategic Review: Outperformance driven by stock selection**

The Portfolio's gain and outperformance of its benchmarks were driven in part by good stock selection in the health care sector. Noteworthy performers here included Psychiatric Solutions (1.5% of the Portfolio as of June 30, 2005), which owns and operates facilities aimed at treating behavioral health problems. In the pharmaceutical area, Nabi Biopharmaceutical (1.1% of the Portfolio as of June 30, 2005) was another solid performer, thanks in part to good trial results for its lead pipeline product, a kidney infection vaccine. The Portfolio's consumer discretionary and materials stocks also supported its performance. Factors that hindered the Portfolio's performance in the period included its overweighting in the technology sector, as the sector underperformed the broader market.

With respect to noteworthy recent portfolio activity, our purchases included RHJ International (0.5% of the Portfolio as of June 30, 2005), a Belgium-listed venture capital company that invests in Japanese companies. We participated in the stock's March IPO. We believe the stock is attractive based on such factors as cash flow, book value and the company's management. One sale we made was E-Trade Financial, based on risk/reward considerations in an online trading market that has become more competitive.

Going forward, we will continue to employ a bottom-up investment approach, seeking to identify companies trading at a discount to their projected growth rates or intrinsic asset values. Factors we incorporate include price/earnings growth, book value, strong returns on capital and reliability and effectiveness of management.

The Credit Suisse Global Small Cap Team

Calvin E. Chung
Leo M. Bernstein
Crispin Finn

* Effective February 21, 2005, the Portfolio changed its name to "Credit Suisse Trust — Global Small Cap Portfolio."

*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. Because of the nature of the Portfolio's investments in start-up and other small companies and certain aggressive strategies it may use, an investment in the Portfolio may be more volatile and less liquid than investments in larger companies and may not be appropriate for all investors.*

*In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Portfolio's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future, and their impact on the Portfolio could be materially different from those projected, anticipated or implied. The Portfolio has no obligation to update or revise forward-looking statements.*

**Average Annual Returns as of June 30, 2005**[1]

| 1 Year | 5 Years | Since Inception | Inception Date |
|---|---|---|---|
| 14.93% | (7.88)% | 3.41% | 9/30/96 |

*Returns represent past performance and include changes in share price and reinvestment of dividends and capital gains.* ***Past performance cannot guarantee future results.*** *The current performance of the Portfolio may be lower or higher than the figures shown. Returns and share price will fluctuate, and redemption value may be more or less than original cost. The performance results do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares. Performance includes the effect of deducting expenses, but does not include charges and expenses attributable to any particular variable contract or plan. Accordingly, the Prospectus of the sponsoring Participating Insurance Company separate account or plan documents or other informational materials supplied by plan sponsors should be carefully reviewed for information on relevant charges and expenses. Excluding these charges and expenses from quotations of performance has the effect of increasing the performance quoted, and the effect of these charges should be considered when comparing performance to that of other mutual funds. Performance information current to the most recent month-end is available at www.csam.com/us.*

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1 Fee waivers and/or expense reimbursements reduced expenses for the Portfolio, without which performance would be lower. Waivers and/or reimbursements may be discontinued at any time.

2 The Russell Midcap® Growth Index and the Morgan Stanley Capital International World Index were benchmarks for the Global Small Cap Portfolio. The Russell Midcap® Growth Index measures the performance of those companies in the Russell Midcap® Index with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index. It is an unmanaged index of common stocks that includes reinvestment of dividends and is compiled by Frank Russell Company. The Morgan Stanley Capital International World Index is a freefloat-adjusted market-capitalization index that is designed to measure global developed-market equity performance. It is the exclusive property of Morgan Stanley Capital International Inc. The Morgan Stanley Capital International World Small Cap Index is an unmanaged broadbased index comprised of small cap companies from 23 developed markets. The index returns shown above are price only and do not reflect the reinvestment of dividends. It is the exclusive property of Morgan Stanley Capital International Inc. In order to reflect changes to the Portfolio's investment policy and name, the Morgan Stanley Capital International World Small Cap Index replaced the Morgan Stanley Capital International World Index and the Russell MidCap® Growth Index as the Portfolio's benchmark effective February 21, 2005. Investors cannot invest directly in an index.

**Information About Your Portfolio's Expenses**

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section and which would result in higher total expenses. The following table is intended to help you understand your ongoing expenses of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The table is based on an investment of $1,000 made at the beginning of the six month period ended June 30, 2005.

The table illustrates your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical fund return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs, such as sales charges (loads) or redemption fees. If these transaction costs had been included, your costs would have been higher. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expenses of owning different funds.

**Expenses and Value of a $1,000 Investment for the six month period ended June 30, 2005**

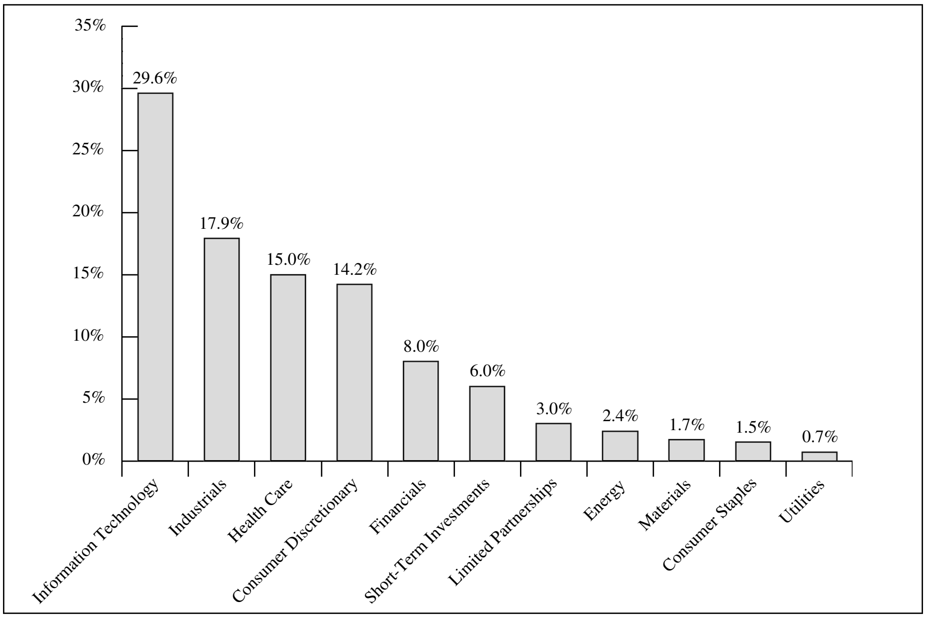
| | |
|---|---|
| **Actual Portfolio Return** | |
| Beginning Account Value 1/1/05 | $1,000.00 |
| Ending Account Value 6/30/05 | $1,049.30 |
| Expenses Paid per $1,000* | $ 7.11 |
| **Hypothetical 5% Portfolio Return** | |
| Beginning Account Value 1/1/05 | $1,000.00 |
| Ending Account Value 6/30/05 | $1,017.85 |
| Expenses Paid per $1,000* | $ 7.00 |
| **Annualized Expense Ratios*** | 1.40% |

* *Expenses are equal to the Portfolio's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year period, then divided by 365.*

*The "Expenses Paid per $1,000" and the "Annualized Expense Ratios" in the tables are based on actual expenses paid by the Portfolio during the period, net of fee waivers and/or expense reimbursements. If those fee waivers and/or expense reimbursements had not been in effect, the Portfolio's actual expenses would have been higher.*

For more information, please refer to the Portfolio's prospectus.

**SECTOR BREAKDOWN***




* Expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

# Credit Suisse Trust – Global Small Cap Portfolio
## Schedule of Investments
June 30, 2005 (unaudited)

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** (88.1%) | | |
| **Australia** (0.9%) | | |
| *Machinery* (0.9%) | | |
| Bradken, Ltd. | 449,431 | $ 984,437 |
| *TOTAL AUSTRALIA* | | 984,437 |
| **Austria** (0.7%) | | |
| *Electric Utilities* (0.7%) | | |
| EVN AG | 11,180 | 808,674 |
| *TOTAL AUSTRIA* | | 808,674 |
| **Belgium** (0.7%) | | |
| *Healthcare Equipment & Supplies* (0.7%) | | |
| Omega Pharma SA | 15,050 | 778,006 |
| *TOTAL BELGIUM* | | 778,006 |
| **Bermuda** (1.1%) | | |
| *Diversified Financials* (1.1%) | | |
| Assured Guaranty, Ltd. | 54,700 | 1,277,792 |
| *TOTAL BERMUDA* | | 1,277,792 |
| **Canada** (4.2%) | | |
| *Leisure Equipment & Products* (1.8%) | | |
| Mega Bloks* | 64,960 | 1,272,893 |
| Mega Bloks, Rule 144A*‡ | 37,100 | 726,976 |
| | | 1,999,869 |
| *Specialty Retail* (2.4%) | | |
| Gildan Activewear, Inc. Class A* | 105,000 | 2,766,750 |
| *TOTAL CANADA* | | 4,766,619 |
| **China** (4.3%) | | |
| *Airlines* (1.5%) | | |
| Air China, Ltd. Series H* | 4,940,000 | 1,661,364 |
| *Communications Equipment* (0.9%) | | |
| ZTE Corp. | 352,800 | 1,049,468 |
| *Internet Software & Services* (1.9%) | | |
| Netease.com, Inc. ADR*§ | 13,650 | 779,551 |
| Shanda Interactive Entertainment, Ltd. ADR*§ | 37,095 | 1,364,725 |
| | | 2,144,276 |
| *TOTAL CHINA* | | 4,855,108 |
| **Denmark** (0.7%) | | |
| *Household Durables* (0.7%) | | |
| Bang & Olufsen AS B Shares§ | 11,600 | 812,835 |
| *TOTAL DENMARK* | | 812,835 |
| **Finland** (0.7%) | | |
| *Communications Equipment* (0.7%) | | |
| Elcoteq Network Class A§ | 40,850 | 801,351 |
| *TOTAL FINLAND* | | 801,351 |

See Accompanying Notes to Financial Statements.

| COMMON STOCKS | Number of Shares | Value |
|---|---|---|
| **France** (2.3%) | | |
| *Aerospace & Defense* (0.8%) | | |
| Zodiac SA | 16,340 | $ 877,009 |
| *Hotels, Restaurants & Leisure* (0.7%) | | |
| Elior | 64,500 | 769,766 |
| *Real Estate* (0.8%) | | |
| Nexity | 23,650 | 914,115 |
| *TOTAL FRANCE* | | 2,560,890 |
| **Germany** (2.4%) | | |
| *Building Products* (0.7%) | | |
| Pfleiderer AG* | 47,300 | 812,459 |
| *Commercial Services & Supplies* (1.0%) | | |
| CeWe Color Holding AG*§ | 21,500 | 1,093,217 |
| *Specialty Retail* (0.7%) | | |
| Fielmann AG*§ | 11,700 | 789,001 |
| *TOTAL GERMANY* | | 2,694,677 |
| **Israel** (1.0%) | | |
| *Internet Software & Services* (1.0%) | | |
| Check Point Software Technologies, Ltd.* | 57,200 | 1,132,560 |
| *TOTAL ISRAEL* | | 1,132,560 |
| **Japan** (8.5%) | | |
| *Chemicals* (1.6%) | | |
| Kuraray Company, Ltd. | 194,000 | 1,833,460 |
| *Diversified Financials* (0.6%) | | |
| RHJ International* | 29,909 | 706,082 |
| *Electronic Equipment & Instruments* (1.5%) | | |
| NIDEC Corp. | 15,900 | 1,677,561 |
| *Hotels, Restaurants & Leisure* (1.8%) | | |
| Round One Corp.§ | 844 | 2,016,695 |
| *Media* (1.7%) | | |
| USEN Corp.§ | 71,000 | 1,867,642 |
| *Specialty Retail* (1.3%) | | |
| USS Company, Ltd. | 23,250 | 1,480,844 |
| *TOTAL JAPAN* | | 9,582,284 |
| **Luxembourg** (0.6%) | | |
| *Computers & Peripherals* (0.6%) | | |
| Gemplus International SA*§ | 322,500 | 705,187 |
| *TOTAL LUXEMBOURG* | | 705,187 |
| **Norway** (1.6%) | | |
| *Electronic Equipment & Instruments* (1.0%) | | |
| Tandberg ASA§ | 103,730 | 1,103,630 |
| *Machinery* (0.6%) | | |
| Tomra Systems ASA§ | 172,000 | 703,674 |
| *TOTAL NORWAY* | | 1,807,304 |

See Accompanying Notes to Financial Statements.

| COMMON STOCKS | Number of Shares | Value |
|---|---|---|
| **South Korea** (2.0%) | | |
| *Internet Software & Services* (0.3%) | | |
| Gravity Company, Ltd. ADR* | 39,400 | $ 338,840 |
| *Machinery* (1.7%) | | |
| Samsung Heavy Industries Company, Ltd. | 211,700 | 1,907,251 |
| *TOTAL SOUTH KOREA* | | 2,246,091 |
| **Spain** (2.3%) | | |
| *Banks* (0.8%) | | |
| Banco Pastor SA | 21,500 | 858,882 |
| *Construction & Engineering* (0.8%) | | |
| Abengoa SA | 73,100 | 847,274 |
| *Food Products* (0.7%) | | |
| Ebro Puleva SA | 47,300 | 839,815 |
| *TOTAL SPAIN* | | 2,545,971 |
| **Sweden** (3.4%) | | |
| *Commercial Services & Supplies* (0.6%) | | |
| Observer AB§ | 164,000 | 696,176 |
| *Food & Drug Retailing* (0.7%) | | |
| Axfood AB | 32,250 | 808,295 |
| *Healthcare Equipment & Supplies* (0.9%) | | |
| Getinge AB Class B§ | 77,200 | 1,050,751 |
| *Machinery* (1.2%) | | |
| Alfa Laval AB§ | 90,000 | 1,299,859 |
| *TOTAL SWEDEN* | | 3,855,081 |
| **Switzerland** (1.4%) | | |
| *Biotechnology* (0.7%) | | |
| Actelion, Ltd.* | 7,740 | 804,148 |
| *Machinery* (0.7%) | | |
| Georg Fischer AG* | 2,580 | 788,037 |
| *TOTAL SWITZERLAND* | | 1,592,185 |
| **Taiwan** (1.0%) | | |
| *Electronic Equipment & Instruments* (1.0%) | | |
| AU Optronics Corp. ADR*§ | 69,900 | 1,184,106 |
| *TOTAL TAIWAN* | | 1,184,106 |
| **United Kingdom** (5.7%) | | |
| *Commercial Services & Supplies* (1.5%) | | |
| Michael Page International PLC | 229,073 | 828,358 |
| Serco Group PLC | 180,000 | 820,459 |
| | | 1,648,817 |
| *Diversified Telecommunication Services* (0.4%) | | |
| COLT Telecom Group PLC*§ | 432,160 | 457,055 |
| *Electronic Equipment & Instruments* (0.7%) | | |
| Laird Group PLC | 144,419 | 821,892 |
| *Industrial Conglomerates* (0.3%) | | |
| Synergy Healthcare PLC | 41,215 | 337,847 |
| *Insurance* (0.9%) | | |
| Admiral Group PLC | 150,000 | 999,084 |

See Accompanying Notes to Financial Statements.

| **COMMON STOCKS** | **Number of Shares** | **Value** |
|---|---|---|
| **United Kingdom** | | |
| *Software* (1.3%) | | |
| isoft Group PLC | 70,400 | $ 528,578 |
| Sage Group PLC | 250,000 | 999,662 |
| | | 1,528,240 |
| *Specialty Retail* (0.6%) | | |
| Halfords Group PLC | 125,000 | 659,570 |
| *TOTAL UNITED KINGDOM* | | 6,452,505 |
| **United States** (42.6%) | | |
| *Banks* (2.2%) | | |
| NewAlliance Bancshares, Inc.* | 84,400 | 1,185,820 |
| Susquehanna Bancshares, Inc. | 50,700 | 1,246,713 |
| | | 2,432,533 |
| *Biotechnology* (1.3%) | | |
| Nabi Biopharmaceuticals* | 95,300 | 1,451,419 |
| *Commercial Services & Supplies* (2.1%) | | |
| Greenfield Online, Inc.* | 120,100 | 1,459,215 |
| Resources Connection, Inc.*§ | 38,700 | 899,001 |
| | | 2,358,216 |
| *Communications Equipment* (1.9%) | | |
| Kanbay International, Inc.*§ | 91,600 | 2,116,876 |
| *Computers & Peripherals* (1.6%) | | |
| Avid Technology, Inc.* | 33,000 | 1,758,240 |
| *Construction & Engineering* (0.8%) | | |
| Infrasource Services, Inc.*§ | 86,000 | 896,120 |
| *Distribution & Wholesale* (1.1%) | | |
| Beacon Roofing Supply, Inc.* | 49,200 | 1,293,960 |
| *Diversified Financials* (1.8%) | | |
| Affiliated Managers Group, Inc.*§ | 30,400 | 2,077,232 |
| *Electronic Equipment & Instruments* (1.1%) | | |
| Broadcom Corp. Class A* | 35,800 | 1,271,258 |
| *Energy Equipment & Services* (1.1%) | | |
| Unit Corp.* | 28,700 | 1,263,087 |
| *Healthcare Equipment & Supplies* (0.2%) | | |
| Dexcom, Inc.*§ | 15,100 | 188,599 |
| *Healthcare Providers & Services* (9.5%) | | |
| AMERIGROUP Corp.* | 47,000 | 1,889,400 |
| Centene Corp.*§ | 73,900 | 2,481,562 |
| Pediatrix Medical Group, Inc.* | 16,700 | 1,228,118 |
| Psychiatric Solutions, Inc.* | 42,276 | 2,059,264 |
| United Surgical Partners International, Inc.* | 59,100 | 3,077,928 |
| | | 10,736,272 |
| *Household Durables* (1.0%) | | |
| Knoll, Inc. | 68,300 | 1,168,613 |
| *Internet Software & Services* (3.8%) | | |
| Corillian Corp.* | 125,300 | 388,430 |
| Digitas, Inc.* | 163,100 | 1,860,971 |
| Openwave Systems, Inc.*§ | 121,100 | 1,986,040 |
| | | 4,235,441 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **COMMON STOCKS** | | |
| **United States** | | |
| *Leisure Equipment & Products* (1.0%) | | |
| RC2 Corp.* | 31,200 | $ 1,172,184 |
| *Machinery* (1.1%) | | |
| NACCO Industries, Inc. Class A | 11,300 | 1,211,586 |
| *Oil & Gas* (1.2%) | | |
| W&T Offshore, Inc. | 55,600 | 1,338,292 |
| *Real Estate* (1.1%) | | |
| HouseValues, Inc.* | 71,200 | 1,287,296 |
| *Semiconductor Equipment & Products* (4.5%) | | |
| Cymer, Inc.* | 52,100 | 1,372,835 |
| FormFactor, Inc.*§ | 76,300 | 2,015,846 |
| Tessera Technologies, Inc.*§ | 52,200 | 1,744,002 |
| | | 5,132,683 |
| *Software* (3.1%) | | |
| Macromedia, Inc.* | 50,300 | 1,922,466 |
| THQ, Inc.*§ | 53,100 | 1,554,237 |
| | | 3,476,703 |
| *Specialty Retail* (1.1%) | | |
| Hot Topic, Inc.* | 63,100 | 1,206,472 |
| *TOTAL UNITED STATES* | | 48,073,082 |
| **TOTAL COMMON STOCKS** (Cost $82,978,696) | | 99,516,745 |
| **PREFERRED STOCK** (0.9%) | | |
| **United States** (0.9%) | | |
| *Consumer Services* (0.9%) | | |
| PRN Corp.*†† (Cost $711,000) | 79,000 | 1,038,850 |
| **WARRANT** (0.0%) | | |
| **United States** (0.0%) | | |
| *Consumer Services* (0.0%) | | |
| PRN Corp. strike price $0.01, expires August 2011*†† (Cost $0) | 18,283 | 0 |
| **LIMITED PARTNERSHIPS** (2.1%) | | |
| **United States** (2.1%) | | |
| *Venture Capital* (2.1%) | | |
| Austin Ventures VIII L.P.*†† | 346,668 | 281,236 |
| CVC European Equity III L.P.*†† | 824,851 | 677,281 |
| Madison Dearborn Capital Partners IV L.P.*†† | 637,536 | 457,756 |
| Oak Investment Partners X L.P.*†† | 1,179,470 | 900,425 |
| **TOTAL LIMITED PARTNERSHIPS** (Cost $2,290,257) | | 2,316,698 |

See Accompanying Notes to Financial Statements.

| | Number of Shares | Value |
|---|---|---|
| **SHORT-TERM INVESTMENTS** (28.7%) | | |
| State Street Navigator Prime Fund§§ | 25,775,068 | $ 25,775,068 |
| | **Par (000)** | |
| State Street Bank and Trust Co. Euro Time Deposit, 2.100%, 7/01/05 | $6,616 | 6,616,000 |
| **TOTAL SHORT-TERM INVESTMENTS** (Cost $32,391,068) | | 32,391,068 |
| **TOTAL INVESTMENTS AT VALUE** (119.8%) (Cost $118,371,021) | | 135,263,361 |
| **LIABILITIES IN EXCESS OF OTHER ASSETS** (-19.8%) | | (22,323,222) |
| **NET ASSETS** (100.0%) | | $112,940,139 |

**INVESTMENT ABBREVIATIONS**
ADR = American Depositary Receipt

* Non-income producing security.

‡ Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2005, these securities amounted to a value of $726,976 or 0.64% of net assets.

†† Restricted security; not readily marketable; security is valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees.

§ Security or portion thereof is out on loan.

§§ Represents security purchased with cash collateral received for securities on loan.

See Accompanying Notes to Financial Statements.

## Credit Suisse Trust – Global Small Cap Portfolio
## Statement of Assets and Liabilities
June 30, 2005 (unaudited)

| | |
|---|---|
| ***Assets*** | |
| Investments at value, including collateral for securities on loan of $25,775,068 (Cost $118,371,021) (Note 2) | $ 135,263,361[1] |
| Cash | 437 |
| Foreign currency at value (cost $2,253,719) | 2,220,752 |
| Receivable for investments sold | 2,144,208 |
| Receivable for portfolio shares sold | 72,478 |
| Dividend and interest receivable | 39,022 |
| Prepaid expenses and other assets | 14,626 |
| Total Assets | 139,754,884 |
| ***Liabilities*** | |
| Advisory fee payable (Note 3) | 97,421 |
| Administrative services fee payable (Note 3) | 13,031 |
| Payable upon return of securities loaned (Note 2) | 25,775,068 |
| Payable for investments purchased | 751,742 |
| Payable for portfolio shares redeemed | 131,398 |
| Other accrued expenses payable | 46,085 |
| Total Liabilities | 26,814,745 |
| ***Net Assets*** | |
| Capital stock, $0.001 par value (Note 7) | 9,653 |
| Paid-in capital (Note 7) | 150,933,730 |
| Accumulated net investment loss | (135,632) |
| Accumulated net realized loss on investments and foreign currency transactions | (54,726,919) |
| Net unrealized appreciation from investments and foreign currency translations | 16,859,307 |
| Net Assets | $ 112,940,139 |
| Shares outstanding | 9,652,760 |
| Net asset value, offering price, and redemption price per share | $11.70 |

[1] Including $24,887,729 of securities on loan.

See Accompanying Notes to Financial Statements.

## Credit Suisse Trust – Global Small Cap Portfolio
## Statement of Operations
For the Six Months Ended June 30, 2005 (unaudited)

| | |
|---|---|
| ***Investment Income*** (Note 2) | |
| Dividends | $ 518,108 |
| Interest | 54,676 |
| Securities lending | 74,343 |
| Net investment income allocated from partnerships | 36,680 |
| Foreign taxes withheld | (51,371) |
| Total investment income | 632,436 |
| ***Expenses*** | |
| Investment advisory fees (Note 3) | 680,154 |
| Administrative services fees (Note 3) | 94,638 |
| Custodian fees | 20,734 |
| Printing fees (Note 3) | 18,244 |
| Legal fees | 17,070 |
| Audit fees | 11,632 |
| Transfer agent fees | 3,439 |
| Insurance expense | 3,430 |
| Commitment fees (Note 4) | 1,273 |
| Trustees' fees | 1,176 |
| Registration fees | 679 |
| Miscellaneous expense | 6,360 |
| Total expenses | 858,829 |
| Less: fees waived (Note 3) | (97,245) |
| Net expenses | 761,584 |
| Net investment loss | (129,148) |
| ***Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items*** | |
| Net realized gain from investments | 17,934,936 |
| Net realized loss on foreign currency transactions | (40,328) |
| Net change in unrealized appreciation (depreciation) from investments | (12,602,901) |
| Net change in unrealized appreciation (depreciation) from foreign currency translations | (46,255) |
| Net realized and unrealized gain from investments and foreign currency related items | 5,245,452 |
| Net increase in net assets resulting from operations | $ 5,116,304 |

See Accompanying Notes to Financial Statements.

## Credit Suisse Trust – Global Small Cap Portfolio
## Statements of Changes in Net Assets

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 |
|---|---|---|
| ***From Operations*** | | |
| Net investment loss | $ (129,148) | $ (913,789) |
| Net realized gain on investments and foreign currency transactions | 17,894,608 | 9,286,112 |
| Net change in unrealized appreciation (depreciation) from investments and foreign currency translations | (12,649,156) | 7,355,743 |
| Net increase in net assets resulting from operations | 5,116,304 | 15,728,066 |
| ***From Capital Share Transactions*** (Note 7) | | |
| Proceeds from sale of shares | 15,822,116 | 35,955,192 |
| Net asset value of shares redeemed | (18,107,873) | (44,150,961) |
| Net decrease in net assets from capital share transactions | (2,285,757) | (8,195,769) |
| Net increase in net assets | 2,830,547 | 7,532,297 |
| ***Net Assets*** | | |
| Beginning of period | 110,109,592 | 102,577,295 |
| End of period | $112,940,139 | $110,109,592 |
| *Accumulated net investment loss* | $ (135,632) | $ (6,484) |

See Accompanying Notes to Financial Statements.

## Credit Suisse Trust – Global Small Cap Portfolio
## Financial Highlights
(For a Share of the Portfolio Outstanding Throughout Each Period)

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000[1] |
|---|---|---|---|---|---|---|
| **Per share data** | | | | | | |
| Net asset value, beginning of period | $ 11.15 | $ 9.45 | $ 6.40 | $ 9.72 | $ 13.62 | $ 19.26 |
| ***INVESTMENT OPERATIONS*** | | | | | | |
| Net investment loss | (0.01) | (0.09) | (0.06) | (0.08) | (0.09) | (0.09) |
| Net gain (loss) on investments and foreign currency related items (both realized and unrealized) | 0.56 | 1.79 | 3.11 | (3.24) | (3.81) | (3.56) |
| Total from investment operations | 0.55 | 1.70 | 3.05 | (3.32) | (3.90) | (3.65) |
| ***LESS DISTRIBUTIONS*** | | | | | | |
| Distributions from net realized gains | — | — | — | — | — | (1.99) |
| ***Net asset value, end of period*** | $ 11.70 | $ 11.15 | $ 9.45 | $ 6.40 | $ 9.72 | $ 13.62 |
| Total return[2] | 4.93% | 17.99% | 47.66% | (34.16)% | (28.63)% | (18.94)% |
| ***RATIOS AND SUPPLEMENTAL DATA*** | | | | | | |
| Net assets, end of period (000s omitted) | $ 112,940 | $110,110 | $102,577 | $ 60,633 | $160,658 | $168,034 |
| Ratio of expenses to average net assets | 1.40%[3] | 1.40% | 1.40% | 1.40% | 1.40% | 1.42% |
| Ratio of net investment loss to average net assets | (0.24)%[3] | (0.85)% | (0.94)% | (0.90)% | (0.84)% | (0.75)% |
| Decrease reflected in above operating expense ratios due to waivers | 0.18%[3] | 0.17% | 0.23% | 0.31% | 0.21% | 0.11% |
| Portfolio turnover rate | 46% | 79% | 86% | 86% | 121% | 69% |

[1] Certain distribution amounts have been reclassified to conform to the current year presentation.

[2] Total returns are historical and assume changes in share price and reinvestment of all dividends and distributions. Had certain expenses not been reduced during the periods shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan. Total returns for periods less than one year are not annualized.

[3] Annualized.

See Accompanying Notes to Financial Statements.

**Note 1. Organization**

Credit Suisse Trust, (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940, as amended, and currently offers eight managed investment portfolios of which one, the Global Small Cap Portfolio (the "Portfolio"), is included in this report. The Portfolio is a diversified investment fund that seeks long-term growth of capital. Shares of the Portfolio are not available directly to individual investors but may be offered only through (a) variable annuity contracts and variable life insurance contracts offered by separate accounts of certain insurance companies and (b) tax-qualified pension and retirement plans. The Portfolio may not be available in connection with a particular contract or plan. The Trust was organized under the laws of The Commonwealth of Massachusetts as a business trust on March 15, 1995. The name of the Portfolio was changed from Credit Suisse Trust – Global Post-Venture Capital Portfolio effective February 21, 2005.

**Note 2. Significant Accounting Policies**

A) SECURITY VALUATION — The net asset value of the Portfolio is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the "Exchange") on each day the Exchange is open for business. The Portfolio's equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the "Valuation Time"). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest asked quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Portfolio's Valuation Time but after the close of the securities' primary markets, are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio may utilize a service provided by an independent third party which has been approved by the Board of Trustees to fair value certain securities.

The Portfolio initially values its investments in private-equity portfolios ("Private Funds") at the amount invested in the Private Funds, less related expenses, where identifiable, unless and until Credit Suisse Asset Management, LLC ("CSAM") determines that such value does not represent fair value. Thereafter, investments in Private Funds held by the Portfolio are valued at their "fair values" using procedures approved by the Board of Trustees. CSAM shall review daily the Portfolio's fair valued securities.

B) FOREIGN CURRENCY TRANSACTIONS — The books and records of the Portfolio are maintained in U.S. dollars. Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the current exchange rate at the end of the period. Translation gains or losses resulting from changes in the exchange rate during the reporting period and realized gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current period. The Portfolio does not isolate that portion of realized gains and losses on investments in *equity* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of equity securities. The Portfolio isolates that portion of realized gains and losses on investments in *debt* securities which is due to changes in the foreign exchange rate from that which is due to changes in market prices of debt securities.

C) SECURITY TRANSACTIONS AND INVESTMENT INCOME — Security transactions are accounted for on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes.

D) DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS — Dividends from net investment income and distributions of net realized capital gains, if any, are declared and paid at least annually. However, to the extent that a net realized capital gain can be reduced by a capital loss carryforward, such gain will not be distributed. Income and capital gain

**Note 2. Significant Accounting Policies**

distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America ("GAAP").

E) FEDERAL INCOME TAXES — No provision is made for federal taxes as it is the Trust's intention to have the Portfolio continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT TERM INVESTMENTS — The Portfolio, together with other funds/ portfolios advised by CSAM, an indirect, wholly-owned subsidiary of Credit Suisse Group, pools available cash into either a short-term variable rate time deposit issued by State Street Bank and Trust Company ("SSB"), the Portfolio's custodian, or a money market fund advised by CSAM. The short-term time deposit issued by SSB is a variable rate account classified as a short-term investment.

H) FORWARD FOREIGN CURRENCY CONTRACTS — The Portfolio may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency. The Portfolio will enter into forward foreign currency contracts primarily for hedging purposes. Forward foreign currency contracts are adjusted by the daily forward exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the contract settlement date or an offsetting position is entered into. At June 30, 2005, the Portfolio had no open forward foreign currency contracts.

I) SECURITIES LENDING — Loans of securities are required at all times to be secured by collateral at least equal to 102% of the market value of domestic securities on loan (including any accrued interest thereon) and 105% of the market value of foreign securities on loan (including any accrued interest thereon). Cash collateral received by the Portfolio in connection with securities lending activity may be pooled together with cash collateral for other funds/portfolios advised by CSAM and may be invested in a variety of investments, including certain CSAM–advised funds, funds advised by SSB, the Portfolio's securities lending agent, or money market instruments. However, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

SSB has been engaged by the Portfolio to act as the Portfolio's securities lending agent. The Portfolio's securities lending arrangement provides that the Portfolio and SSB will share the net income earned from securities lending activities. During the six months ended June 30, 2005, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $362,817, of which $256,780 was rebated to borrowers (brokers). The Portfolio retained $74,343 from the cash collateral investment, and SSB, as lending agent, was paid $31,694. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

J) PARTNERSHIP ACCOUNTING POLICY — The Portfolio records its pro-rata share of the income/(loss) and capital gains/(losses) allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Portfolio's Statement of Operations.

K) OTHER — The Portfolio may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risk (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and

**Note 2. Significant Accounting Policies**

political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

The Portfolio may be subject to taxes imposed by countries in which it invests, with respect to its investments in issuers existing or operating in such countries. Such taxes are generally based on income earned or repatriated and capital gains realized on the sale of such investments. The Portfolio accrues such taxes when the related income is earned or gains are realized.

The Portfolio may invest up to 15% of its net assets in non-publicly traded securities. Non-publicly traded securities may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from such sales could differ from the price originally paid by the Portfolio or the current carrying values, and the difference could be material.

**Note 3. Transactions with Affiliates and Related Parties**

CSAM serves as investment adviser for the Portfolio. For its investment advisory services, CSAM is entitled to receive a fee from the Portfolio at an annual rate of 1.25% of the Portfolio's average daily net assets. For the six months ended June 30, 2005, investment advisory fees earned and voluntarily waived for the Portfolio were $680,154 and $97,245, respectively.

Credit Suisse Asset Management Limited (CSAM U.K.) ("CSAM.U.K.") and Credit Suisse Asset Management Limited (CSAM Australia) ("CSAM Australia"), each an affiliate of CSAM, are sub-investment advisers to the Portfolio (the "Sub-Advisors"). CSAM U.K. and CSAM Australia's sub-investment advisory fees are paid by CSAM out of CSAM's net investment advisory fee and are not paid by the Portfolio.

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of CSAM, and SSB serve as co-administrators to the Portfolio.

For its co-administrative services, CSAMSI currently receives a fee calculated at an annual rate of 0.10% of the Portfolio's average daily net assets. For the six months ended June 30, 2005, co-administrative services fees earned by CSAMSI were $54,412.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, calculated in total for all the Credit Suisse funds/portfolios co-administered by SSB and allocated based upon relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the six months ended June 30, 2005, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $40,226.

In addition to serving as the Portfolio's co-administrator, CSAMSI currently serves as distributor of the Portfolio's shares without compensation.

Merrill Corporation ("Merrill"), an affiliate of CSAM, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the six months ended June 30, 2005, Merrill was paid $8,213 for its services to the Portfolio.

**Note 4. Line of Credit**

The Portfolio, together with other funds/portfolios advised by CSAM (collectively, the "Participating Funds"), participates in a $75 million committed, unsecured line of credit facility ("Credit Facility") for temporary or emergency purposes with Deutsche Bank, A.G. as administrative agent and syndication agent and SSB as operations agent. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At June 30, 2005, and during the six months ended June 30, 2005, the Portfolio had no borrowings under the Credit Facility.

### Note 5. Purchases and Sales of Securities

For the six months ended June 30, 2005, purchases and sales of investment securities (excluding short-term investments) were $47,159,491 and $53,868,436, respectively.

At June 30, 2005, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were $118,371,021, $19,833,775, $(2,941,435) and $16,892,340, respectively.

### Note 6. Restricted Securities

Certain investments of the Portfolio are restricted as to resale and are valued at fair value as determined in good faith by, or under the direction of, the Board of Trustees under procedures established by the Board of Trustees. The Portfolio does not have the right to demand that such securities be registered.

| Security | Security Type | Number of Shares | Acquisition Date | Cost | Fair Value | Value per Share | Percentage of Net Assets | Distributions Received | Open Commitments |
|---|---|---|---|---|---|---|---|---|---|
| Austin Ventures VIII L.P. | Ltd. Partnership | 346,668 | 7/13/01 | $ 303,847 | $ 281,236 | $ 0.81 | 0.25% | $ 39,584 | $ 206,665 |
| CVC European Equity III L.P. | Ltd. Partnership | 824,851 | 9/04/01 | 535,338 | 677,281 | 0.82 | 0.60% | 496,356 | 175,150 |
| Madison Dearborn Capital Partners, IV,L.P. | Ltd. Partnership | 637,536 | 4/02/01 | 486,531 | 457,756 | 0.72 | 0.41% | 162,292 | 362,464 |
| Oak Investment Partners X L.P. | Ltd. Partnership | 1,179,470 | 1/18/01 | 964,541 | 900,425 | 0.76 | 0.80% | 192,858 | 320,530 |
| PRN Corp. | Preferred Stock | 79,000 | 8/13/01 | 711,000 | 1,038,850 | 13.15 | 0.92% | — | — |
| PRN Corp. | Warrants | 18,283 | 8/14/01 | — | — | — | — | — | — |
| | | | | $3,001,257 | $3,355,548 | | 2.98% | $891,090 | $1,064,809 |

### Note 7. Capital Share Transactions

The Trust is authorized to issue an unlimited number of full and fractional shares of beneficial interest, $.001 par value per share. Transactions in capital shares of the Portfolio were as follows:

| | For the Six Months Ended June 30, 2005 (unaudited) | For the Year Ended December 31, 2004 |
|---|---|---|
| Shares sold | 1,408,955 | 3,577,338 |
| Shares redeemed | (1,629,648) | (4,558,615) |
| Net decrease | (220,693) | (981,277) |

On June 30, 2005, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio was as follows:

| Number of Shareholders | Approximate Percentage of Outstanding Shares |
|---|---|
| 4 | 74% |

Some of the shareholders are omnibus accounts, which hold shares on behalf of individual shareholders.

### Note 8. Contingencies

In the normal course of business, the Portfolio may provide general indemnifications pursuant to certain contracts and organizational documents. The Portfolio's maximum exposure under these arrangements is dependent on future claims that may be made against the Portfolio and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

Important Privacy Choices for Consumers

We are committed to maintaining the privacy of every current and prospective customer. We recognize that you entrust important personal information to us, and we wish to assure you that we take seriously our responsibilities in protecting and safeguarding this information.

In connection with making available investment products and services to current and potential customers, we may obtain nonpublic personal information about you. This information may include your name, address, e-mail address, social security number, account number, assets, income, financial situation, transaction history and other personal information.

We may collect nonpublic information about you from the following sources:

- Information we receive on applications, forms, questionnaires, web sites, agreements or in the course of establishing or maintaining a customer relationship; and
- Information about your transactions with us, our affiliates, or others.

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except with your consent or as otherwise permitted by law.

**Restrict Information Sharing with Affiliates:** In cases where we believe that additional products and services may be of interest to you, we may share the information described above with our affiliates unless you say "No."

☐ No, please do not share personal and financial information with your affiliated companies. [If you check this box, you must send this notice back to us with your name, address and account number to Credit Suisse Funds, 466 Lexington Avenue, New York, New York 10017.]

We may also disclose this information to firms that perform services on our behalf. These agents and service providers are required to treat the information confidentially and use it only for the purpose for which it is provided.

We restrict access to nonpublic personal information about you to those employees, agents or other parties who need to know that information to provide products or services to you or in connection with your investments with or through us. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

*Note: This Notice is provided to clients and prospective clients of Credit Suisse Asset Management, LLC ("CSAM"), and Credit Suisse Asset Management Securities, Inc., and shareholders and prospective shareholders in CSAM-sponsored and advised investment companies, including Credit Suisse Funds, and other consumers and customers, as applicable. This Notice is not intended to be incorporated in any offering materials but is merely a statement of our current Privacy Policy, and may be amended from time to time upon notice to you. This Notice is dated as of May 17, 2005.*

## Proxy Voting and Portfolio Holdings Information (unaudited)

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30 of each year as well as the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-800-222-8977
- On the Portfolio's website, www.csam.com/us
- On the website of the Securities and Exchange Commission, http://www.sec.gov.

The Portfolio files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Portfolio's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.csam.com/us

CREDIT SUISSE | ASSET MANAGEMENT

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TRGSC-SAR-0605

# Dreyfus Investment Portfolios, MidCap Stock Portfolio

**SEMIANNUAL REPORT** June 30, 2005

YOU, YOUR ADVISOR AND

Dreyfus

A MELLON FINANCIAL COMPANY℠

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus portfolio are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus portfolio.

# Contents

## THE PORTFOLIO



## FOR MORE INFORMATION

Dreyfus Investment Portfolios,
MidCap Stock Portfolio

# The Portfolio

## LETTER FROM THE CHAIRMAN

Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the six-month period from January 1, 2005, through June 30, 2005. Inside, you'll find valuable information about how the portfolio was managed during the reporting period, including a discussion with the portfolio manager, John O'Toole.

On average, U.S. stock prices ended the first half of 2005 slightly lower than where they began, largely due to headwinds caused by higher energy prices, rising short-term interest rates and recent evidence of slower economic growth. While midcap stocks generally produced higher returns than large-cap stocks, and large-cap stocks generally outperformed small-cap stocks, these differences were relatively small. Conversely, value-oriented stocks continued to produce substantially better results than their more growth-oriented counterparts.

In some ways, market conditions at midyear remind us of those from one year ago, when stock prices languished due to economic and political concerns before rallying strongly later in the year. Currently, our economists expect the U.S. economy to continue to grow over the foreseeable future without significant new inflationary pressures, potentially setting the stage for better business conditions that could send stock prices higher. As always, we encourage you to discuss these and other matters with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter
Chairman and Chief Executive Officer
The Dreyfus Corporation
July 15, 2005

## DISCUSSION OF PERFORMANCE

John O'Toole, Portfolio Manager

### How did Dreyfus Investment Portfolios, MidCap Stock Portfolio perform relative to its benchmark?

For the six-month period ended June 30, 2005, the portfolio's Initial shares produced a total return of 2.05%, and its Service shares produced a total return of 1.96%.[1] This compares with the total return of 3.85% provided by the portfolio's benchmark, the Standard & Poor's MidCap 400 Index, for the same period.[2]

Despite relatively volatile market conditions, most stock market indices ended the reporting period close to where they began. However, midcap stocks generally produced higher returns than their large- and small-cap counterparts. While the portfolio benefited from the relative strength of the midcap market, disappointing performance from a small number of individual holdings, particularly in the financial and producer goods sectors, caused its returns to lag the benchmark.

### What is the portfolio's investment approach?

The portfolio normally invests at least 80% of its assets in growth and value stocks of midsize companies, which are chosen through a disciplined process that combines computer modeling techniques, fundamental analysis and risk management.

In selecting securities, our investment team uses a computer model to identify and rank stocks within an industry or sector, based on:

- *value,* or how a stock is priced relative to its perceived intrinsic worth;
- *growth,* in this case the sustainability or growth of earnings; and
- *financial profile,* which measures the financial health of the company.

We then use fundamental analysis to select the most attractive of the higher ranked securities, drawing on a variety of sources, including internal as well as Wall Street research and company management. We attempt to manage risk by diversifying across companies and industries, limiting the potential adverse impact from any one stock or industry. The portfolio is structured so that its sector weightings and risk characteristics, such as growth, size, quality and yield, are similar to those of the S&P 400.

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

Although U.S. economic growth remained strong throughout the reporting period, the equity markets struggled with uncertainties related to high energy prices, rising interest rates and the potential impact of these factors on the rate of economic growth. In this uncertain market environment, we emphasized companies that we believed offered sound future business prospects and were likely to produce earnings that were in line with analysts' expectations. This approach produced relatively strong returns among energy stocks, which benefited from rising oil and gas prices across a wide range of energy-related industries. Top energy performers included companies with extensive refinery operations, such as Tesoro and Sunoco; oil service providers, such as Todco; and exploration and production outfits, such as Newfield Exploration.

Our investment strategy also identified several strong individual stock selections in other sectors. Notable examples included clothing retailer Abercrombie & Fitch, which capitalized on current fashion trends; medical services provider Coventry Health Care, which rose as a result of favorable business conditions and a healthy pricing environment; and Whole Foods Market, the nation's largest chain of natural and organic supermarkets, which continued its successful program of geographic expansion.

Unfortunately, the market's lack of clear direction led to sharp declines in companies that failed to meet analysts' earnings expectations or offered even slightly downbeat forecasts of future performance. The portfolio encountered some difficulties in the financial sector. Despite strong returns from holdings such as Chicago Mercantile Exchange Holdings and Zenith National Insurance, disappointments among a few other holdings, such as Puerto Rico-based bank Doral Financial, asset administration services provider Investors Financial Services and education lending services provider First Marblehead, detracted from returns. Weak individual stock selections in the producer goods and business services sectors further hurt the portfolio's performance relative to its benchmark. Most notably, uncertainties regarding the future strength of the U.S. economy took a toll on industrial distributor W.W. Grainger and trucker J. B. Hunt Transport Services, while cost-related concerns and difficulties in its magazine group proved detrimental to publisher Gemstar-TV Guide International.

### What is the portfolio's current strategy?

In our opinion, the midcap market's recent strength compared to both small- and large-cap stocks reflects its relative stability and potential for growth. We believe that midcap stocks generally face fewer risks than small-cap stocks in unfavorable economic environments, but they offer the potential to grow by a greater order of magnitude than large-cap stocks when conditions permit. In our judgment, these characteristics position the midcap market to weather the uncertainties of the current investment environment. However, the recent strength in midcap stocks could end at any time, and performance could be more in line or below that of larger and smaller capitalization issues. In addition, we believe that the current environment should favor companies that continue to meet positive earnings forecasts despite broad economic uncertainties. Accordingly, we have focused our research and analytical efforts on identifying individual midcap companies with more predictable earnings under a variety of economic conditions.

July 15, 2005

*The portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the portfolio directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of Dreyfus Investment Portfolios, MidCap Stock Portfolio made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the portfolio may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.*

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, portfolio shares may be worth more or less than their original cost. The portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns. Return figures provided reflect the absorption of portfolio expenses by The Dreyfus Corporation pursuant to an agreement in effect through December 31, 2005, at which time it may be extended, terminated or modified. Had these expenses not been absorbed, the portfolio's returns would have been lower.*

2 *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize-company segment of the U.S. market.*

## UNDERSTANDING YOUR PORTFOLIO'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your portfolio's prospectus or talk to your financial adviser.*

### Review your portfolio's expenses

The table below shows the expenses you would have paid on a $1,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio from January 1, 2005 to June 30, 2005. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

**Expenses and Value of a $1,000 Investment**
assuming actual returns for the six months ended June 30, 2005

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 3.96 | $ 5.01 |
| Ending value (after expenses) | $1,020.50 | $1,019.60 |

## COMPARING YOUR PORTFOLIO'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

### Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your portfolio's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the portfolio with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

**Expenses and Value of a $1,000 Investment**
assuming a hypothetical 5% annualized return for the six months ended June 30, 2005

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 3.96 | $ 5.01 |
| Ending value (after expenses) | $1,020.88 | $1,019.84 |

† *Expenses are equal to the portfolio's annualized expense ratio of .79% for Initial shares and 1.00% for Service shares, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

# STATEMENT OF INVESTMENTS

June 30, 2005 (Unaudited)

| Common Stocks—99.3% | Shares | | Value ($) |
|---|---|---|---|
| **Consumer Cyclical—15.3%** | | | |
| Abercrombie & Fitch, Cl. A | 65,600 | | 4,506,720 |
| Aeropostale | 76,800 | a | 2,580,480 |
| American Eagle Outfitters | 95,200 | | 2,917,880 |
| Applebee's International | 104,900 | | 2,778,801 |
| Autoliv | 47,000 | | 2,058,600 |
| Bandag | 49,200 | b | 2,265,660 |
| Barnes & Noble | 69,200 | a | 2,684,960 |
| CDW | 82,800 | | 4,727,052 |
| CEC Entertainment | 54,500 | a | 2,293,905 |
| Chico's FAS | 77,000 | a,b | 2,639,560 |
| Choice Hotels International | 34,900 | | 2,292,930 |
| Claire's Stores | 115,800 | b | 2,784,990 |
| Foot Locker | 67,000 | | 1,823,740 |
| Guitar Center | 43,500 | a | 2,539,095 |
| HNI | 41,800 | | 2,138,070 |
| Harman International Industries | 36,300 | | 2,953,368 |
| Hibbett Sporting Goods | 38,100 | a | 1,441,704 |
| Michaels Stores | 111,600 | | 4,616,892 |
| Pacific Sunwear of California | 78,600 | a | 1,807,014 |
| Penn National Gaming | 78,400 | a | 2,861,600 |
| Polaris Industries | 34,500 | | 1,863,000 |
| Sonic | 53,700 | a | 1,639,461 |
| Toro | 43,200 | | 1,667,952 |
| Whole Foods Market | 53,600 | | 6,340,880 |
| | | | **66,224,314** |
| **Consumer Staples—3.3%** | | | |
| Estee Lauder Cos., Cl. A | 43,600 | | 1,706,068 |
| Gold Kist | 58,600 | a | 1,264,588 |
| Hormel Foods | 140,600 | | 4,123,798 |
| Pilgrim's Pride | 61,400 | b | 2,095,582 |
| SUPERVALU | 39,500 | b | 1,288,095 |
| Sanderson Farms | 51,600 | | 2,344,704 |
| Sensient Technologies | 72,200 | | 1,488,042 |
| | | | **14,310,877** |
| **Energy—9.7%** | | | |
| Energen | 92,000 | | 3,224,600 |
| Grant Prideco | 97,000 | a | 2,565,650 |

| **Common Stocks (continued)** | Shares | | Value ($) |
|---|---|---|---|
| **Energy (continued)** | | | |
| Houston Exploration | 52,700 | a | 2,795,735 |
| Hydril | 44,800 | a | 2,434,880 |
| Newfield Exploration | 82,600 | a | 3,294,914 |
| Oceaneering International | 53,200 | a | 2,056,180 |
| Plains Exploration & Production | 81,300 | a | 2,888,589 |
| Pride International | 75,400 | a | 1,937,780 |
| Questar | 48,700 | | 3,209,330 |
| Sunoco | 29,000 | | 3,296,720 |
| Tesoro | 77,700 | b | 3,614,604 |
| Todco, Cl. A | 108,000 | a | 2,772,360 |
| W&T Offshore | 120,900 | | 2,910,063 |
| Weatherford International | 86,300 | a | 5,003,674 |
| | | | **42,005,079** |
| **Health Care—12.2%** | | | |
| Apria Healthcare Group | 29,000 | a | 1,004,560 |
| Barr Pharmaceuticals | 32,700 | a | 1,593,798 |
| Cephalon | 45,400 | a | 1,807,374 |
| Charles River Laboratories International | 48,100 | a | 2,320,825 |
| Coventry Health Care | 82,400 | a | 5,829,800 |
| Dade Behring Holdings | 36,200 | | 2,353,362 |
| Diagnostic Products | 40,000 | | 1,893,200 |
| Endo Pharmaceuticals Holdings | 59,000 | a | 1,550,520 |
| Express Scripts | 41,000 | a | 2,049,180 |
| First Horizon Pharmaceutical | 74,500 | a,b | 1,418,480 |
| Genesis HealthCare | 41,000 | a | 1,897,480 |
| Hospira | 68,300 | a | 2,663,700 |
| Invitrogen | 29,000 | a | 2,415,410 |
| Kindred Healthcare | 47,300 | a | 1,873,553 |
| Millipore | 48,300 | a | 2,740,059 |
| PacifiCare Health Systems | 76,500 | a | 5,465,925 |
| PerkinElmer | 75,900 | | 1,434,510 |
| Sybron Dental Specialties | 56,300 | a | 2,118,006 |
| Thermo Electron | 89,400 | a | 2,402,178 |
| United Therapeutics | 25,300 | a,b | 1,219,460 |
| Varian Medical Systems | 116,100 | a,b | 4,334,013 |
| WellChoice | 36,700 | a | 2,549,549 |
| | | | **52,934,942** |

| Common Stocks (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Interest Sensitive—17.3%** | | | |
| A.G. Edwards | 70,200 | | 3,169,530 |
| AMB Property | 48,800 | b | 2,119,384 |
| Allmerica Financial | 58,500 | a | 2,169,765 |
| American Financial Group | 115,000 | | 3,854,800 |
| AmeriCredit | 111,200 | a,b | 2,835,600 |
| Apollo Investment | 108,100 | | 1,992,283 |
| BankAtlantic Bancorp, Cl. A | 129,000 | | 2,444,550 |
| Bank of Hawaii | 74,300 | | 3,770,725 |
| BlackRock, Cl.A | 24,200 | | 1,946,890 |
| Chicago Mercantile Exchange Holdings | 6,050 | | 1,787,775 |
| Colonial BancGroup | 143,600 | | 3,167,816 |
| Dime Bancorp (warrants) | 19,900 | a | 3,582 |
| Downey Financial | 31,900 | b | 2,335,080 |
| Federal Realty Investment Trust | 42,400 | | 2,501,600 |
| FirstFed Financial | 28,500 | a | 1,698,885 |
| First Marblehead | 25,500 | a,b | 894,030 |
| Hudson City Bancorp | 211,500 | | 2,413,215 |
| Investors Financial Services | 82,100 | | 3,105,022 |
| Lincoln National | 59,900 | | 2,810,508 |
| Mercury General | 35,000 | | 1,908,200 |
| MoneyGram International | 121,900 | | 2,330,728 |
| National Financial Partners | 52,100 | | 2,039,194 |
| New Century Financial | 44,400 | b | 2,284,380 |
| Regency Centers | 41,000 | b | 2,345,200 |
| SVB Financial Group | 56,700 | a,b | 2,715,930 |
| Selective Insurance Group | 41,800 | b | 2,071,190 |
| State Auto Financial | 65,800 | | 2,042,432 |
| Texas Regional Bancshares, Cl. A | 34,400 | | 1,048,512 |
| United Fire & Casualty | 70,500 | | 3,131,610 |
| Unitrin | 54,900 | | 2,695,590 |
| Weingarten Realty Investors | 85,300 | b | 3,345,466 |
| Wilmington Trust | 54,150 | | 1,949,942 |
| | | | **74,929,414** |
| **Producer Goods—15.4%** | | | |
| Bemis | 95,200 | | 2,526,608 |
| Brookfield Homes | 31,700 | | 1,445,520 |
| CNF | 60,700 | | 2,725,430 |

| Common Stocks (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Producer Goods (continued)** | | | |
| Cooper Industries, Cl. A | 36,100 | | 2,306,790 |
| Crane | 62,700 | | 1,649,010 |
| D.R. Horton | 51,733 | | 1,945,678 |
| Eagle Materials | 20,700 | | 1,916,613 |
| Energizer Holdings | 48,900 | a | 3,040,113 |
| FMC | 31,000 | a | 1,740,340 |
| Florida Rock Industries | 24,900 | | 1,826,415 |
| J.B. Hunt Transport Services | 193,600 | | 3,736,480 |
| Lennar, Cl. A | 101,000 | | 6,408,450 |
| Lubrizol | 84,300 | | 3,541,443 |
| Lyondell Chemical | 92,900 | | 2,454,418 |
| Nucor | 41,200 | | 1,879,544 |
| Overseas Shipholding Group | 57,800 | | 3,447,770 |
| Potlatch | 43,000 | | 2,250,190 |
| Rockwell Automation | 38,400 | | 1,870,464 |
| Sherwin-Williams | 42,200 | | 1,987,198 |
| Sigma-Aldrich | 36,100 | | 2,023,044 |
| Silgan Holdings | 26,300 | | 1,479,112 |
| Standard Pacific | 32,700 | | 2,875,965 |
| Stanley Works | 57,300 | | 2,609,442 |
| Teledyne Technologies | 58,300 | a | 1,899,414 |
| Timken | 92,900 | | 2,145,990 |
| Toll Brothers | 27,400 | a | 2,782,470 |
| W.W. Grainger | 40,100 | | 2,197,079 |
| | | | **66,710,990** |
| **Services—10.4%** | | | |
| Acxiom | 122,300 | | 2,553,624 |
| Catalina Marketing | 68,400 | | 1,738,044 |
| Cognizant Technology Solutions, Cl. A | 97,300 | a | 4,585,749 |
| Copart | 124,100 | a | 2,953,580 |
| Cox Radio, Cl. A | 91,900 | a,b | 1,447,425 |
| Equifax | 69,900 | | 2,496,129 |
| FactSet Research Systems | 94,800 | | 3,397,632 |
| Gemstar-TV Guide International | 296,700 | a | 1,065,153 |
| Getty Images | 30,900 | a,b | 2,294,634 |
| ITT Educational Services | 53,300 | a,b | 2,847,286 |
| La Quinta | 201,100 | a | 1,876,263 |

| Common Stocks (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Services (continued)** | | | |
| Manpower | 71,000 | | 2,824,380 |
| NAVTEQ | 27,900 | a | 1,037,322 |
| ProQuest | 39,600 | a | 1,298,484 |
| Republic Services | 130,700 | | 4,706,507 |
| Robert Half International | 81,000 | b | 2,022,570 |
| Rollins | 66,000 | | 1,322,640 |
| Washington Post, Cl. B | 5,800 | | 4,843,174 |
| | | | **45,310,596** |
| **Technology—10.5%** | | | |
| Amphenol, Cl. A | 81,400 | | 3,269,838 |
| Arrow Electronics | 126,700 | a | 3,441,172 |
| Autodesk | 77,500 | a | 2,663,675 |
| Avnet | 86,000 | a | 1,937,580 |
| Citrix Systems | 91,000 | a | 1,971,060 |
| Freescale Semiconductor, Cl. A | 114,600 | a | 2,427,228 |
| Harris | 146,000 | | 4,556,660 |
| Imation | 54,700 | | 2,121,813 |
| InfoSpace | 51,700 | a | 1,702,481 |
| Lam Research | 70,400 | a | 2,037,376 |
| Micrel | 157,000 | a | 1,808,640 |
| Microchip Technology | 67,400 | | 1,996,388 |
| National Semiconductor | 83,700 | | 1,843,911 |
| Novell | 287,500 | a | 1,782,500 |
| SanDisk | 72,000 | a | 1,708,560 |
| Sybase | 96,200 | a | 1,765,270 |
| Tech Data | 65,600 | a | 2,401,616 |
| Transaction Systems Architects | 87,500 | a | 2,155,125 |
| Varian Semiconductor Equipment Associates | 53,500 | a | 1,979,500 |
| Western Digital | 152,000 | a | 2,039,840 |
| | | | **45,610,233** |
| **Utilities—5.2%** | | | |
| CenturyTel | 83,100 | | 2,877,753 |
| Great Plains Energy | 104,900 | | 3,345,261 |
| NRG Energy | 63,000 | a | 2,368,800 |
| OGE Energy | 123,100 | | 3,562,514 |
| Pinnacle West Capital | 53,600 | | 2,382,520 |
| SCANA | 100,500 | b | 4,292,355 |

| **Common Stocks (continued)** | Shares | Value ($) |
|---|---|---|
| **Utilities (continued)** | | |
| WPS Resources | 69,900 | 3,931,875 |
| | | **22,761,078** |
| **Total Common Stocks** (cost $373,590,265) | | **430,797,523** |

| **Short-Term Investments—1.4%** | Principal Amount ($) | Value ($) |
|---|---|---|
| **Repurchase Agreement;** | | |
| Greenwich Capital Markets, Tri-Party Repurchase Agreement, 2.90%, dated 6/30/2005, due 7/1/2005, in the amount of $6,000,483 (fully collateralized by $6,100,000 Federal Home Loan Mortgage Corp., Notes, 4.20%, 11/26/2007, value $6,122,854) (cost $6,000,000) | 6,000,000 | **6,000,000** |

| **Investment of Cash Collateral for Securities Loaned—4.8%** | Shares | Value ($) |
|---|---|---|
| **Registered Investment Company;** | | |
| Dreyfus Institutional Cash Advantage Fund (cost $20,675,338) | 20,675,338 [c] | **20,675,338** |

| | | |
|---|---|---|
| **Total Investments** (cost $430,265,603) | **105.5%** | **457,472,861** |
| **Liabilities, Less Cash and Receivables** | **(5.5%)** | **(23,896,690)** |
| **Net Assets** | **100.0%** | **433,576,171** |

[a] *Non-income producing.*

[b] *All or a portion of these securities are on loan. At June 30, 2005, the total market value of the portfolio's securities on loan is $23,019,301 and the total market value of the collateral held by the portfolio is $23,779,178, consisting of cash collateral of $20,675,338 and U.S. Government and agency securities valued at $3,103,840.*

[c] *Investment in affiliated money market mutual fund.*

## Portfolio Summary (Unaudited)†

| | Value (%) | | Value (%) |
|---|---|---|---|
| Interest Sensitive | 17.3 | Energy | 9.7 |
| Producer Goods | 15.4 | Short-Term/ Money Market Investments | 6.2 |
| Consumer Cyclical | 15.3 | Other | 8.5 |
| Health Care | 12.2 | | |
| Technology | 10.5 | | |
| Services | 10.4 | | **105.5** |

† *Based on net assets.*

*See notes to financial statements.*

# STATEMENT OF ASSETS AND LIABILITIES

June 30, 2005 (Unaudited)

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities—See Statement of Investments (including securities on loan, valued at $23,019,301)—Note 1(b): | | |
| Unaffiliated issuers | 379,590,265 | 436,797,523 |
| Affiliated issuers | 20,675,338 | 20,675,338 |
| Receivable for investment securities sold | | 4,569,060 |
| Dividends and interest receivable | | 194,115 |
| Receivable for shares of Beneficial Interest subscribed | | 8,852 |
| Prepaid expenses | | 10,094 |
| | | **462,254,982** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(b) | | 285,134 |
| Cash overdraft due to Custodian | | 1,406,602 |
| Liability for securities on loan—Note 1(b) | | 20,675,338 |
| Payable for investment securities purchased | | 6,043,974 |
| Payable for shares of Beneficial Interest redeemed | | 232,558 |
| Accrued expenses | | 35,205 |
| | | **28,678,811** |
| **Net Assets ($)** | | **433,576,171** |
| **Composition of Net Assets ($):** | | |
| Paid-in capital | | 341,754,378 |
| Accumulated undistributed investment income—net | | 773,641 |
| Accumulated net realized gain (loss) on investments | | 33,840,894 |
| Accumulated net unrealized appreciation (depreciation) on investments | | 57,207,258 |
| **Net Assets ($)** | | **433,576,171** |

## Net Asset Value Per Share

| | Initial Shares | Service Shares |
|---|---|---|
| Net Assets ($) | 349,818,054 | 83,758,117 |
| Shares Outstanding | 19,538,644 | 4,695,873 |
| **Net Asset Value Per Share ($)** | **17.90** | **17.84** |

*See notes to financial statements.*

# STATEMENT OF OPERATIONS

Six Months Ended June 30, 2005 (Unaudited)

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Cash dividends (net of $1,051 foreign taxes withheld at source) | 2,408,375 |
| Interest | 71,166 |
| Income from securities lending | 13,237 |
| **Total Income** | **2,492,778** |
| **Expenses:** | |
| Investment advisory fee—Note 3(a) | 1,560,484 |
| Distribution fees—Note 3(b) | 100,386 |
| Prospectus and shareholders' reports | 27,221 |
| Professional fees | 22,719 |
| Custodian fees—Note 3(b) | 21,725 |
| Trustees' fees and expenses—Note 3(c) | 4,542 |
| Shareholder servicing costs—Note 3(b) | 3,494 |
| Registration fees | 1,930 |
| Miscellaneous | 6,943 |
| **Total Expenses** | **1,749,444** |
| Less—waiver of fees due to undertaking—Note 3(a) | (18,344) |
| **Net Expenses** | **1,731,100** |
| **Investment Income—Net** | **761,678** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments | 33,861,481 |
| Net unrealized appreciation (depreciation) on investments | (26,019,077) |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **7,842,404** |
| **Net Increase in Net Assets Resulting from Operations** | **8,604,082** |

*See notes to financial statements.*

# STATEMENT OF CHANGES IN NET ASSETS

| | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| **Operations ($):** | | |
| Investment income—net | 761,678 | 1,483,312 |
| Net realized gain (loss) on investments | 33,861,481 | 35,312,341 |
| Net unrealized appreciation (depreciation) on investments | (26,019,077) | 16,976,570 |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | **8,604,082** | **53,772,223** |
| **Dividends to Shareholders from ($):** | | |
| Investment income—net: | | |
| Initial shares | (105,742) | (1,247,333) |
| Service shares | – | (140,525) |
| Net realized gain on investments: | | |
| Initial shares | (1,407,926) | (8,014,833) |
| Service shares | (339,126) | (1,899,359) |
| **Total Dividends** | **(1,852,794)** | **(11,302,050)** |
| **Beneficial Interest Transactions ($):** | | |
| Net proceeds from shares sold: | | |
| Initial shares | 20,159,032 | 38,662,714 |
| Service shares | 6,667,402 | 26,036,803 |
| Dividends reinvested: | | |
| Initial shares | 1,513,668 | 9,262,166 |
| Service shares | 339,126 | 2,039,884 |
| Cost of shares redeemed: | | |
| Initial shares | (22,346,059) | (39,708,550) |
| Service shares | (6,166,880) | (12,581,127) |
| **Increase (Decrease) in Net Assets from Beneficial Interest Transactions** | **166,289** | **23,711,890** |
| **Total Increase (Decrease) in Net Assets** | **6,917,577** | **66,182,063** |
| **Net Assets ($):** | | |
| Beginning of Period | 426,658,594 | 360,476,531 |
| **End of Period** | **433,576,171** | **426,658,594** |
| Undistributed investment income—net | 773,641 | 117,705 |

| | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| **Capital Share Transactions:** | | |
| **Initial Shares** | | |
| Shares sold | 1,170,013 | 2,387,774 |
| Shares issued for dividends reinvested | 87,850 | 531,785 |
| Shares redeemed | (1,296,618) | (2,450,805) |
| **Net Increase (Decrease) in Shares Outstanding** | **(38,755)** | **468,754** |
| **Service Shares** | | |
| Shares sold | 387,519 | 1,619,530 |
| Shares issued for dividends reinvested | 19,751 | 117,505 |
| Shares redeemed | (360,748) | (778,615) |
| **Net Increase (Decrease) in Shares Outstanding** | **46,522** | **958,420** |

*See notes to financial statements.*

# FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single portfolio share. Total return shows how much your investment in the portfolio would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the portfolio's financial statements.

| Initial Shares | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | | |
| Net asset value, beginning of period | 17.62 | 15.82 | 12.04 | 13.80 | 14.29 | 13.44 |
| Investment Operations: | | | | | | |
| Investment income—net [a] | .03 | .07 | .04 | .04 | .03 | .05 |
| Net realized and unrealized gain (loss) on investments | .33 | 2.22 | 3.78 | (1.76) | (.50) | 1.05 |
| Total from Investment Operations | .36 | 2.29 | 3.82 | (1.72) | (.47) | 1.10 |
| Distributions: | | | | | | |
| Dividends from investment income—net | (.01) | (.07) | (.04) | (.04) | (.02) | (.03) |
| Dividends from net realized gain on investments | (.07) | (.42) | – | – | – | (.13) |
| Dividends in excess of net realized gain on investments | – | – | – | – | – | (.09) |
| Total Distributions | (.08) | (.49) | (.04) | (.04) | (.02) | (.25) |
| Net asset value, end of period | 17.90 | 17.62 | 15.82 | 12.04 | 13.80 | 14.29 |
| **Total Return (%)** | 2.05[b] | 14.48 | 31.72 | (12.49) | (3.26) | 8.28 |
| **Ratios/Supplemental Data (%):** | | | | | | |
| Ratio of total expenses to average net assets | .39[b] | .78 | .82 | .85 | .89 | 1.04 |
| Ratio of net expenses to average net assets | .39[b] | .78 | .82 | .85 | .89 | .98 |
| Ratio of net investment income to average net assets | .20[b] | .43 | .32 | .32 | .24 | .34 |
| Portfolio Turnover Rate | 53.00[b] | 79.75 | 74.15 | 69.15 | 76.37 | 102.89 |
| Net Assets, end of period ($ x 1,000) | 349,818 | 344,979 | 302,253 | 218,387 | 181,028 | 76,784 |

[a] *Based on average shares outstanding at each month end.*
[b] *Not annualized.*
*See notes to financial statements.*

| Service Shares | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000[a] |
|---|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | | |
| Net asset value, beginning of period | 17.57 | 15.77 | 12.02 | 13.78 | 14.29 | 14.29 |
| Investment Operations: | | | | | | |
| Investment income—net | .02[b] | .04[b] | .02[b] | .02[b] | .01[b] | – |
| Net realized and unrealized gain (loss) on investments | .32 | 2.21 | 3.75 | (1.75) | (.50) | – |
| Total from Investment Operations | .34 | 2.25 | 3.77 | (1.73) | (.49) | – |
| Distributions: | | | | | | |
| Dividends from investment income—net | – | (.03) | (.02) | (.03) | (.02) | – |
| Dividends from net realized gain on investments | (.07) | (.42) | – | – | – | – |
| Total Distributions | (.07) | (.45) | (.02) | (.03) | (.02) | – |
| Net asset value, end of period | 17.84 | 17.57 | 15.77 | 12.02 | 13.78 | 14.29 |
| **Total Return (%)** | 1.96[c] | 14.23 | 31.48 | (12.64) | (3.36) | – |
| **Ratios/Supplemental Data (%):** | | | | | | |
| Ratio of total expenses to average net assets | .52[c] | 1.03 | 1.06 | 1.10 | 1.17 | – |
| Ratio of net expenses to average net assets | .50[c] | 1.00 | 1.00 | 1.00 | 1.00 | – |
| Ratio of net investment income to average net assets | .10[c] | .22 | .12 | .15 | .07 | – |
| Portfolio Turnover Rate | 53.00[c] | 79.75 | 74.15 | 69.15 | 76.37 | 102.89 |
| Net Assets, end of period ($ x 1,000) | 83,758 | 81,680 | 58,224 | 18,320 | 9,764 | 1 |

[a] *The portfolio commenced offering Service shares on December 31, 2000.*
[b] *Based on average shares outstanding at each month end.*
[c] *Not annualized.*
*See notes to financial statements.*

## NOTE 1—Significant Accounting Policies:

Dreyfus Investment Portfolios (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company, operating as a series company currently offering nine series, including the MidCap Stock Portfolio (the "portfolio"). The portfolio is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The portfolio is a diversified series. The portfolio's investment objective is to provide investment results that are greater than the total return performance of publicly-traded common stocks of medium-size domestic companies in the aggregate, as represented by the Standard & Poor's MidCap 400 Index. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the portfolio's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial").

Dreyfus Service Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the portfolio's shares, which are sold without a sales charge. The portfolio is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the distribution plan and the expenses borne by each class and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The fund accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The portfolio's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The portfolio's maximum exposure under these arrangements is unknown. The portfolio does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Investments in registered investment companies are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the portfolio calculates its net asset value, the portfolio may value these investments at fair value as determined in accordance with the procedures approved by the Board of Trustees. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Trustees, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers. Financial futures are valued at the last sales price.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The portfolio has an arrangement with the custodian bank whereby the portfolio receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the portfolio includes net earnings credits, if any, as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the portfolio may lend securities to qualified institutions. At origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan will be maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. The portfolio will be entitled to receive all income on securities loaned, in addition to income earned as a result of the lending transaction. Although each security loaned is fully collateralized, the portfolio would bear the risk of delay in recovery of, or loss of rights in, the securities loaned should a borrower fail to return the securities in a timely manner.

The portfolio may enter into repurchase agreements with financial institutions, deemed to be creditworthy by the Manager, subject to the seller's agreement to repurchase and the portfolio's agreement to resell such securities at a mutually agreed upon price. Securities purchased subject to repurchase agreements are deposited with the portfolio's custodian and, pursuant to the terms of the repurchase agreement, must have an aggregate market value greater than or equal to the repurchase price plus accrued interest at all times. If the value of the underlying securities falls below the value of the repurchase price plus accrued interest, the portfolio will require the seller to deposit additional collateral by the next business day. If the request for additional collateral is not met, or the seller defaults on its repurchase obligation, the portfolio maintains the right to sell the underlying securities at market value and may claim any resulting loss against the seller.

**(c) Affiliated issuers:** Investments in other investment companies advised by the Manager are defined as "affiliated" in the Act.

**(d) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, if any, are normally declared and paid annually, but the portfolio may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gain can be offset by capital loss carryovers, if any, it is the policy of the portfolio not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

**(e) Federal income taxes:** It is the policy of the portfolio to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2004 was as follows: ordinary income $1,387,858 and long-term capital gains $9,914,192. The tax character of current year distributions will be determined at the end of the current fiscal year.

## NOTE 2—Bank Line of Credit:

The portfolio participates with other Dreyfus-managed funds in a $100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes, including the financing of redemptions. Interest is charged to the portfolio based on prevailing market rates in effect at the time of borrowings. During the period ended June 30, 2005, the portfolio did not borrow under the line of credit.

## NOTE 3—Investment Advisory Fee and Other Transactions With Affiliates:

**(a)** Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75 of 1% of the value of the portfolio's average daily net assets and is payable monthly.

The Manager has agreed, from January 1, 2005 to December 31, 2005, to waive receipt of its fees and/or assume the expenses of the portfolio so that the expenses of neither class, exclusive of taxes, brokerage fees, interest on borrowings and extraordinary expenses, exceed 1% of the value of the average daily net assets of their class. During the period ended June 30, 2005, the Manager waived receipt of fees of $18,344, pursuant to the undertaking.

**(b)** Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25 of 1% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Plan are payable without regard to actual expenses incurred. During the period ended June 30, 2005, Service shares were charged $100,386 pursuant to the Plan.

The portfolio compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the portfolio. During the period ended June 30, 2005, the portfolio was charged $394 pursuant to the transfer agency agreement.

The portfolio compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the portfolio. During the period ended June 30, 2005, the portfolio was charged $21,725 pursuant to the custody agreement.

During the period ended June 30, 2005, the portfolio was charged $1,998 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees $265,869, Rule 12b-1 distribution plan fees $17,078, custodian fees $11,847, chief compliance officer fees $1,998 and transfer agency per account fees $135, which are offset against an expense reimbursement currently in effect in the amount of $11,793.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

## NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended June 30, 2005, amounted to $223,628,266 and $220,456,617, respectively.

At June 30, 2005, accumulated net unrealized appreciation on investments was $57,207,258, consisting of $67,237,204 gross unrealized appreciation and $10,029,946 gross unrealized depreciation.

At June 30, 2005, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

## NOTE 5—Legal Matters:

In early 2004, two purported class and derivative actions were filed against Mellon Financial, Mellon Bank, N.A., Dreyfus, Founders Asset Management LLC, and certain directors of the Dreyfus Funds and the Dreyfus Founders Funds (together, the "Funds") in the United States District Court for the Western District of Pennsylvania. In September 2004, plaintiffs served a Consolidated Amended Complaint (the "Amended Complaint") on behalf of a purported class of all persons who acquired interests in any of the Funds between January 30, 1999 and November 17, 2003, and derivatively on behalf of the Funds. The Amended Complaint in the newly styled In re Dreyfus Mutual Funds Fee Litigation also named the Distributor, Premier Mutual Fund Services, Inc. and two additional Fund directors as defendants and alleges violations of the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Pennsylvania Unfair Trade Practices and Consumer Protection Law and common-law claims. Plaintiffs seek to recover allegedly improper and excessive Rule 12b-1 and advisory fees allegedly charged to the Funds for marketing and distribution services. More specifically, plaintiffs claim, among other things, that 12b-1 fees and directed brokerage were improperly used to pay brokers to recommend the Funds over other funds, and that such payments were not disclosed to investors. In addition, plaintiffs assert that economies of scale and soft-dollar benefits were not passed on to the Funds. Plaintiffs further allege that 12b-1 fees were improperly charged to certain of the Funds that were closed to new investors. The Amended Complaint seeks compensatory and punitive damages, rescission of the advisory contracts, and an accounting and restitution of any unlawful fees, as well as an award of attorneys' fees and litigation expenses. As noted, some of the claims in this litigation are asserted derivatively on behalf of the Funds that have been named as nominal defendants. With respect to such derivative claims, no relief is sought against the Funds. Dreyfus believes the allegations to be totally without merit and intends to defend the action vigorously. In November 2004, all named defendants moved to dismiss the Amended Complaint in whole or substantial part. Briefing was completed in May 2005.

Additional lawsuits arising out of these circumstances and presenting similar allegations and requests for relief may be filed against the defendants in the future. Neither Dreyfus nor the Funds believe that any of the pending actions will have a material adverse effect on the Funds or Dreyfus' ability to perform its contract with the Funds.

# For More Information

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**MidCap Stock Portfolio**
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New York, NY 10166

**Custodian**

Mellon Bank, N.A.
One Mellon Bank Center
Pittsburgh, PA 15258

**Transfer Agent &**
**Dividend Disbursing Agent**

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

**Distributor**

Dreyfus Service Corporation
200 Park Avenue
New York, NY 10166

**Telephone** 1-800-554-4611 or 516-338-3300

**Mail** The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Institutional Servicing

The portfolio files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The portfolio's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the portfolio uses to determine how to vote proxies relating to portfolio securities, and information regarding how the portfolio voted these proxies for the 12-month period ended June 30, 2005, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.



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# The Dreyfus Socially Responsible Growth Fund, Inc.

**SEMIANNUAL REPORT** June 30, 2005

YOU, YOUR ADVISOR AND

Dreyfus

A MELLON FINANCIAL COMPANY℠

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

# Contents

## THE FUND



## FOR MORE INFORMATION

## LETTER FROM THE CHAIRMAN

Dear Shareholder:

We are pleased to present this semiannual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the six-month period from January 1, 2005, through June 30, 2005. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio managers, L. Emerson Tuttle and Paul Hilton.

On average, U.S. stock prices ended the first half of 2005 slightly lower than where they began, largely due to headwinds caused by higher energy prices, rising short-term interest rates and recent evidence of slower economic growth. While midcap stocks generally produced higher returns than large-cap stocks, and large-cap stocks generally outperformed small-cap stocks, these differences were relatively small. Conversely, value-oriented stocks continued to produce substantially better results than their more growth-oriented counterparts.

In some ways, market conditions at midyear remind us of those from one year ago, when stock prices languished due to economic and political concerns before rallying strongly later in the year. Currently, our economists expect the U.S. economy to continue to grow over the foreseeable future without significant new inflationary pressures, potentially setting the stage for better business conditions that could send stock prices higher. As always, we encourage you to discuss these and other matters with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter
Chairman and Chief Executive Officer
The Dreyfus Corporation
July 15, 2005

## DISCUSSION OF FUND PERFORMANCE

L. Emerson Tuttle and Paul Hilton, Portfolio Managers

### How did The Dreyfus Socially Responsible Growth Fund, Inc. perform relative to its benchmark?

For the six-month period ended June 30, 2005, the fund's Initial shares produced a –2.18% total return, and the fund's Service shares produced a –2.28% total return.[1] In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a –0.81% total return for the same period.[2]

We attribute the market's slightly negative return to geopolitical and economic uncertainties, which led to an investment environment that favored traditionally defensive, value-oriented investment sectors. Because the fund's investment strategy tends to emphasize growth-oriented stocks, it produced lower returns than its benchmark.

### What is the fund's investment approach?

The fund seeks to provide capital growth with current income as a secondary objective. The fund looks primarily for growth-oriented companies that generally exhibit three characteristics: improving profitability measurements, a pattern of consistent earnings and reasonable prices. To pursue these goals, the fund, under normal circumstances, invests at least 80% of its assets in common stocks of companies that, in the opinion of the fund's management, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America.

### What other factors influenced the fund's performance?

The fund's relatively light exposure to the traditionally value-oriented energy and utilities sectors accounted for most of its lagging returns compared to the benchmark. While oil and gas producer Anadarko Petroleum generated attractive results, the fund's generally underweighted position among energy stocks prevented it from participating more fully in the sector's gains. The fund held no exposure to utilities, another strong sector during the reporting period, and held a relatively large overweight in technology stocks, one of the market's weaker areas.

While individual stock selections contributed positively to the fund's relative performance in most areas, a few holdings detracted from returns. Among industrial stocks, diversified conglomerate Tyco International and manufacturer Danaher proved notably disappointing, as did the fund's lack of exposure to aerospace and defense stocks. In addition, while the fund's relatively large overweight in health care stocks boosted relative returns, disappointments among a few medical device companies, such as Kinetic Concepts, undermined the fund's performance.

On the positive side, the fund's stock selections in the consumer discretionary sector delivered strong relative performance. The fund avoided the troubled automobile industry, focusing instead on high-end retailers, such as Coach, and hotel operators, such as Marriott International. The fund also produced relatively good returns in the basic materials sector through its investment in Air Products & Chemicals, which benefited from strong earnings and mild exposure to higher energy costs.

## What is the fund's current strategy?

True to our generally growth-oriented investment approach, the fund has continued to emphasize the health care, technology and consumer discretionary sectors. Among these sectors, we have shifted some assets from technology to health care, where lately we have found what we believe are attractive investment opportunities among large-cap pharmaceutical producers and select biotechnology companies. While we have continued to maintain relatively light exposure to energy stocks, we have modestly increased our holdings in that area, as we have in brokerage and asset management firms within the financials sector.

## Can you highlight some of the fund's socially responsible investing activities?

Many companies now recognize the importance of issuing annual corporate social responsibility (CSR) reports to inform investors and the broader public about their social and environmental policies and performance. While a good CSR report can't be the only source for evaluating a company's progress in these areas, the reports have evolved into an important input for our research work.

Paul Hilton, the fund's portfolio manager for its areas of social concern, is a founder and co-chairman of SIRAN, the Social Investment Research Analyst Network. This group, comprising more than 100 social research analysts at 30 firms, recently analyzed CSR reporting by companies in the S&P 100. The review found that of these 100 companies, 58 have a separate section of their website dedicated to CSR, and 39 issue annual CSR reports. Most encouragingly, 24 of the companies reference the Global Reporting Initiative (GRI), a common global reporting format that SIRAN analysts recommend to aid in the comparability of reports.

Our fund has taken an active role in encouraging the companies held in the portfolio to improve the quality of the CSR information they make available to the public. Many of the companies in the portfolio are seasoned reporters, and a few of the other companies are taking the first steps in doing so. Intel, for example, is a veteran reporter with the highest level of CSR disclosure recognized by the GRI. Target, on the other hand, this year became one of the first major retailers to issue a CSR report, putting pressure on other retailers to follow suit.

For further information regarding the fund's approach to socially responsible investing, search for "SRI" on the Dreyfus website (www.dreyfus.com) or consult the fund's prospectus.

July 15, 2005

*The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds/portfolios managed or advised by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund/portfolio.*

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

2 *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's 500 Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance.*

# UNDERSTANDING YOUR FUND'S EXPENSES (Unaudited)

*As a mutual fund investor, you pay ongoing expenses, such as management fees and other expenses. Using the information below, you can estimate how these expenses affect your investment and compare them with the expenses of other funds. You also may pay one-time transaction expenses, including sales charges (loads) and redemption fees, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.*

## Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. from January 1, 2005 to June 30, 2005. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

**Expenses and Value of a $1,000 Investment**
assuming actual returns for the six months ended June 30, 2005

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.02 | $ 5.20 |
| Ending value (after expenses) | $978.20 | $977.20 |

# COMPARING YOUR FUND'S EXPENSES WITH THOSE OF OTHER FUNDS (Unaudited)

## Using the SEC's method to compare expenses

The Securities and Exchange Commission (SEC) has established guidelines to help investors assess fund expenses. Per these guidelines, the table below shows your fund's expenses based on a $1,000 investment, assuming a hypothetical 5% annualized return. You can use this information to compare the ongoing expenses (but not transaction expenses or total cost) of investing in the fund with those of other funds. All mutual fund shareholder reports will provide this information to help you make this comparison. Please note that you cannot use this information to estimate your actual ending account balance and expenses paid during the period.

**Expenses and Value of a $1,000 Investment**
assuming a hypothetical 5% annualized return for the six months ended June 30, 2005

| | Initial Shares | Service Shares |
|---|---|---|
| Expenses paid per $1,000† | $ 4.11 | $ 5.31 |
| Ending value (after expenses) | $1,020.73 | $1,019.54 |

† *Expenses are equal to the fund's annualized expense ratio of .82% for Initial shares and 1.06% for Service shares; multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).*

## STATEMENT OF INVESTMENTS

June 30, 2005 (Unaudited)

| Common Stocks—99.3% | Shares | Value ($) |
|---|---|---|
| **Computer Software—7.5%** | | |
| Cognos | 199,000 [a] | 6,793,860 |
| Microsoft | 425,000 | 10,557,000 |
| VeriSign | 271,000 [a] | 7,793,960 |
| Yahoo! | 248,800 [a] | 8,620,920 |
| | | **33,765,740** |
| **Consumer Discretionary—17.5%** | | |
| Advance Auto Parts | 136,500 [a] | 8,811,075 |
| Chico's FAS | 196,700 [a] | 6,742,876 |
| Coach | 260,000 [a] | 8,728,200 |
| Dollar General | 427,500 | 8,703,900 |
| Home Depot | 238,500 | 9,277,650 |
| Marriott International, Cl. A | 165,500 | 11,290,410 |
| News, Cl. B | 429,700 [b] | 7,244,742 |
| Target | 179,300 | 9,755,713 |
| Walt Disney | 344,700 | 8,679,546 |
| | | **79,234,112** |
| **Consumer Staples—10.6%** | | |
| CVS | 287,700 | 8,363,439 |
| Estee Lauder Cos., Cl. A | 153,200 | 5,994,716 |
| PepsiCo | 219,500 | 11,837,635 |
| Procter & Gamble | 285,400 | 15,054,850 |
| Walgreen | 150,300 | 6,912,297 |
| | | **48,162,937** |
| **Energy—2.2%** | | |
| Anadarko Petroleum | 68,900 | 5,660,135 |
| Weatherford International | 74,000 [a] | 4,290,520 |
| | | **9,950,655** |
| **Financials—9.2%** | | |
| American Express | 171,000 | 9,102,330 |
| Citigroup | 181,400 | 8,386,122 |
| Goldman Sachs Group | 78,300 | 7,988,166 |
| JP Morgan Chase | 210,000 | 7,417,200 |
| Radian Group | 183,000 | 8,641,260 |
| | | **41,535,078** |

| Common Stocks (continued) | Shares | | Value ($) |
|---|---|---|---|
| **Health Care—20.5%** | | | |
| Alcon | 92,300 | | 10,093,005 |
| Amgen | 72,500 | a | 4,383,350 |
| Fisher Scientific International | 191,500 | a | 12,428,350 |
| Genentech | 36,300 | a | 2,914,164 |
| Genzyme | 199,000 | a | 11,957,910 |
| Johnson & Johnson | 360,000 | | 23,400,000 |
| Kinetic Concepts | 79,100 | a | 4,746,000 |
| Novartis AG, ADR | 96,000 | | 4,554,240 |
| Sanofi-Aventis, ADR | 223,000 | | 9,140,770 |
| WellPoint | 130,000 | a | 9,053,200 |
| | | | **92,670,989** |
| **Industrials—9.5%** | | | |
| Danaher | 238,500 | | 12,483,090 |
| Emerson Electric | 42,000 | | 2,630,460 |
| Rockwell Automation | 213,500 | | 10,399,585 |
| 3M | 97,300 | | 7,034,790 |
| Tyco International | 353,000 | | 10,307,600 |
| | | | **42,855,525** |
| **Information Technology—19.6%** | | | |
| Altera | 271,600 | a,b | 5,383,112 |
| Cisco Systems | 553,300 | a | 10,573,563 |
| Cognizant Technology Solutions, Cl. A | 105,000 | a | 4,948,650 |
| Dell | 148,500 | a | 5,867,235 |
| EMC | 901,800 | a | 12,363,678 |
| Intel | 526,700 | | 13,725,802 |
| International Business Machines | 159,000 | | 11,797,800 |
| Motorola | 532,900 | | 9,730,754 |
| National Semiconductor | 140,500 | | 3,095,215 |
| Texas Instruments | 389,000 | b | 10,919,230 |
| | | | **88,405,039** |
| **Materials—1.9%** | | | |
| Air Products & Chemicals | 142,500 | | **8,592,750** |
| **Telecommunication Services—.8%** | | | |
| Verizon Communications | 105,000 | | **3,627,750** |
| **Total Common Stocks** (cost $402,812,314) | | | **448,800,575** |

| Short-Term Investments—2.0% | Principal Amount ($) | Value ($) |
|---|---|---|
| **Certificates of Deposit—.0%** | | |
| Self Help Credit Union, 2.95%, 9/13/2005 | 100,000 | **100,000** |
| **U.S. Treasury Bills—2.0%** | | |
| 2.72%, 7/21/2005 | 956,000 | 954,471 |
| 2.83%, 8/4/2005 | 8,030,000 | 8,008,078 |
| | | **8,962,549** |
| **Total Short-Term Investments** (cost $9,063,073) | | **9,062,549** |

| Investment of Cash Collateral for Securities Loaned—.9% | Shares | Value ($) |
|---|---|---|
| **Registered Investment Company;** | | |
| Dreyfus Institutional Cash Advantage Plus Fund (cost $4,261,900) | 4,261,900 [c] | **4,261,900** |

| | | |
|---|---|---|
| **Total Investments** (cost $416,137,287) | **102.2%** | **462,125,024** |
| **Liabilities, Less Cash and Receivables** | **(2.2%)** | **(10,054,297)** |
| **Net Assets** | **100.0%** | **452,070,727** |

*ADR—American Depository Receipts.*

[a] *Non-income producing.*

[b] *A portion of these securities are on loan. At June 30, 2005, the total market value of the fund's securities on loan is $4,100,337 and the total market value of the collateral held by the fund is $4,261,900.*

[c] *Investment in affiliated money market mutual fund.*

## Portfolio Summary (Unaudited)†

| | Value (%) | | Value (%) |
|---|---|---|---|
| Health Care | 20.5 | Financials | 9.2 |
| Information Technology | 19.6 | Computer Software | 7.5 |
| Consumer Discretionary | 17.5 | Other | 7.8 |
| Consumer Staples | 10.6 | | |
| Industrials | 9.5 | | **102.2** |

† *Based on net assets.*

*See notes to financial statements.*

# STATEMENT OF ASSETS AND LIABILITIES

June 30, 2005 (Unaudited)

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities— See Statement of Investments (including securities on loan, valued at $4,100,337)—Note 1(b): | | |
| Unaffiliated issuers | 411,875,387 | 457,863,124 |
| Affiliated issuers | 4,261,900 | 4,261,900 |
| Cash | | 35,045 |
| Receivable for investment securities sold | | 10,143,394 |
| Dividends and interest receivable | | 204,415 |
| Receivable for shares of Common Stock subscribed | | 3,682 |
| Prepaid expenses | | 17,649 |
| | | **472,529,209** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(c) | | 299,860 |
| Payable for investment securities purchased | | 15,393,831 |
| Liability for securities on loan—Note 1(b) | | 4,261,900 |
| Payable for shares of Common Stock redeemed | | 441,364 |
| Accrued expenses | | 61,527 |
| | | **20,458,482** |
| **Net Assets ($)** | | **452,070,727** |
| **Composition of Net Assets ($):** | | |
| Paid-in capital | | 657,453,920 |
| Accumulated undistributed investment income—net | | 269,442 |
| Accumulated net realized gain (loss) on investments | | (251,640,372) |
| Accumulated net unrealized appreciation (depreciation) on investments | | 45,987,737 |
| **Net Assets ($)** | | **452,070,727** |

## Net Asset Value Per Share

| | Initial Shares | Service Shares |
|---|---|---|
| Net Assets ($) | 439,205,020 | 12,865,707 |
| Shares Outstanding | 17,837,211 | 525,454 |
| **Net Asset Value Per Share ($)** | **24.62** | **24.48** |

*See notes to financial statements.*

# STATEMENT OF OPERATIONS

Six Months Ended June 30, 2005 (Unaudited)

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Cash dividends (net of $73,425 foreign taxes withheld at source) | 2,095,362 |
| Interest | 68,229 |
| Income from securities lending | 9,851 |
| **Total Income** | **2,173,442** |
| **Expenses:** | |
| Investment advisory fee—Note 3(a) | 1,734,506 |
| Professional fees | 39,939 |
| Prospectus and shareholders' reports | 38,694 |
| Shareholder servicing costs—Note 3(c) | 38,631 |
| Custodian fees—Note 3(c) | 20,488 |
| Distribution fees—Note 3(b) | 16,305 |
| Directors' fees and expenses—Note 3(d) | 6,192 |
| Loan commitment fees—Note 2 | 1,364 |
| Registration fees | 309 |
| Miscellaneous | 8,173 |
| **Total Expenses** | **1,904,601** |
| Less—reduction in custody fees due to earnings credits—Note 1(b) | (601) |
| **Net Expenses** | **1,904,000** |
| **Investment Income—Net** | **269,442** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments | 32,145,694 |
| Net unrealized appreciation (depreciation) on investments | (43,463,480) |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **(11,317,786)** |
| **Net (Decrease) in Net Assets Resulting from Operations** | **(11,048,344)** |

*See notes to financial statements.*

# STATEMENT OF CHANGES IN NET ASSETS

| | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| **Operations ($):** | | |
| Investment income—net | 269,442 | 1,874,645 |
| Net realized gain (loss) on investments | 32,145,694 | 19,989,769 |
| Net unrealized appreciation (depreciation) on investments | (43,463,480) | 7,654,122 |
| **Net Increase (Decrease) in Net Assets Resulting from Operations** | **(11,048,344)** | **29,518,536** |
| **Dividends to Shareholders from ($):** | | |
| Investment income—net: | | |
| Initial shares | – | (1,891,537) |
| Service shares | – | (19,888) |
| **Total Dividends** | **–** | **(1,911,425)** |
| **Capital Stock Transactions ($):** | | |
| Net proceeds from shares sold: | | |
| Initial shares | 11,790,131 | 30,639,929 |
| Service shares | 1,184,214 | 2,361,742 |
| Dividends reinvested: | | |
| Initial shares | – | 1,891,537 |
| Service shares | – | 19,888 |
| Cost of shares redeemed: | | |
| Initial shares | (50,845,356) | (91,661,913) |
| Service shares | (1,496,262) | (1,835,549) |
| **Increase (Decrease) in Net Assets from Capital Stock Transactions** | **(39,367,273)** | **(58,584,366)** |
| **Total Increase (Decrease) in Net Assets** | **(50,415,617)** | **(30,977,255)** |
| **Net Assets ($):** | | |
| Beginning of Period | 502,486,344 | 533,463,599 |
| **End of Period** | **452,070,727** | **502,486,344** |
| Undistributed investment income—net | 269,442 | – |

| | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| **Capital Share Transactions:** | | |
| **Initial Shares** | | |
| Shares sold | 476,112 | 1,268,633 |
| Shares issued for dividends reinvested | – | 75,115 |
| Shares redeemed | (2,066,182) | (3,826,643) |
| **Net Increase (Decrease) in Shares Outstanding** | **(1,590,070)** | **(2,482,895)** |
| **Service Shares** | | |
| Shares sold | 48,271 | 99,344 |
| Shares issued for dividends reinvested | – | 793 |
| Shares redeemed | (61,206) | (76,854) |
| **Net Increase (Decrease) in Shares Outstanding** | **(12,935)** | **23,283** |

*See notes to financial statements.*

# FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund's financial statements.

| Initial Shares | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | | |
| Net asset value, beginning of period | 25.17 | 23.79 | 18.90 | 26.67 | 34.47 | 39.07 |
| Investment Operations: | | | | | | |
| Investment income—net [a] | .02 | .09 | .02 | .05 | .02 | .32 |
| Net realized and unrealized gain (loss) on investments | (.57) | 1.39 | 4.89 | (7.77) | (7.80) | (4.63) |
| Total from Investment Operations | (.55) | 1.48 | 4.91 | (7.72) | (7.78) | (4.31) |
| Distributions: | | | | | | |
| Dividends from investment income—net | – | (.10) | (.02) | (.05) | (.02) | (.29) |
| Net asset value, end of period | 24.62 | 25.17 | 23.79 | 18.90 | 26.67 | 34.47 |
| **Total Return (%)** | (2.18)[b] | 6.21 | 26.00 | (28.94) | (22.57) | (11.03) |
| **Ratios/Supplemental Data (%):** | | | | | | |
| Ratio of total expenses to average net assets | .40[b] | .82 | .84 | .80 | .78 | .78 |
| Ratio of net expenses to average net assets | .40[b] | .82 | .84 | .80 | .78 | .78 |
| Ratio of net investment income to average net assets | .06[b] | .38 | .12 | .20 | .06 | .82 |
| Portfolio Turnover Rate | 46.64[b] | 55.54 | 63.17 | 90.07 | 110.82 | 63.60 |
| Net Assets, end of period ($ x 1,000) | 439,205 | 488,994 | 521,262 | 456,014 | 779,063 | 1,075,089 |

[a] *Based on average shares outstanding at each month end.*
[b] *Not annualized.*
*See notes to financial statements.*

| Service Shares | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 | 2003 | 2002 | 2001 | 2000[a] |
|---|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | | |
| Net asset value, beginning of period | 25.06 | 23.69 | 18.84 | 26.59 | 34.47 | 34.47 |
| Investment Operations: | | | | | | |
| Investment income (loss)—net | (.01)[b] | .04[b] | (.03)[b] | (.00)[b,c] | (.06)[b] | – |
| Net realized and unrealized gain (loss) on investments | (.57) | 1.37 | 4.88 | (7.75) | (7.82) | – |
| Total from Investment Operations | (.58) | 1.41 | 4.85 | (7.75) | (7.88) | – |
| Distributions: | | | | | | |
| Dividends from investment income—net | – | (.04) | (.00)[c] | (.00)[c] | (.00)[c] | – |
| Net asset value, end of period | 24.48 | 25.06 | 23.69 | 18.84 | 26.59 | 34.47 |
| **Total Return (%)** | (2.28)[d] | 5.94 | 25.75 | (29.14) | (22.85) | – |
| **Ratios/Supplemental Data (%):** | | | | | | |
| Ratio of total expenses to average net assets | .53[d] | 1.06 | 1.09 | 1.03 | 1.09 | – |
| Ratio of net expenses to average net assets | .53[d] | 1.06 | 1.09 | 1.03 | 1.09 | – |
| Ratio of net investment income (loss) to average net assets | (.06)[d] | .17 | (.14) | (.01) | (.20) | – |
| Portfolio Turnover Rate | 46.64[d] | 55.54 | 63.17 | 90.07 | 110.82 | 63.60 |
| Net Assets, end of period ($ x 1,000) | 12,866 | 13,492 | 12,202 | 8,115 | 8,275 | 1 |

[a] *The fund commenced offering Service shares on December 31, 2000.*
[b] *Based on average shares outstanding at each month end.*
[c] *Amount represents less than $.01 per share.*
[d] *Not annualized.*
*See notes to financial statements.*

## NOTE 1—Significant Accounting Policies:

The Dreyfus Socially Responsible Growth Fund, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified open-end management investment company. The fund's investment objective is to provide capital growth, with current income as a secondary goal through equity investments in companies that not only meet traditional investment standards, but which also show evidence that they conduct their business in a manner that contributes to the enhancement of the quality of life in America. The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the fund's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial").

Dreyfus Service Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue 300 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial shares (150 million shares authorized) and Service shares (150 million shares authorized). Initial shares are subject to a shareholder services fee and Service shares are subject to a distribution fee. Each class of shares has identical rights and privileges, except with respect to the shareholder services plan, the distribution plan, and the expenses borne by each class and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The fund accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. Securities not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices, except for open short positions, where the asked price is used for valuation purposes. Bid price is used when no asked price is available. Investments in registered investment companies are valued at their net asset value. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Directors. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADR's and futures contracts. For other securities that are fair valued by the Board of Directors, certain factors may be considered such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold and public trading in similar securities of the issuer or comparable issuers.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

The fund has an arrangement with the custodian bank whereby the fund receives earnings credits from the custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A., an affiliate of the Manager, the fund may lend securities to qualified institutions. At origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan will be maintained at all times. Cash collateral is invested in certain money market mutual funds managed by the Manager. The fund will be entitled to receive all income on securities loaned, in addition to income earned as a result of the lending transaction. Although each security loaned is fully collateralized, the fund would bear the risk of delay in recovery of, or loss of rights in, the securities loaned should a borrower fail to return the securities in a timely manner.

**(c) Affiliated issuers:** Investments in other investment companies advised by the Manager are defined as "affiliated" in the Act.

**(d) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net and dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable provisions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

The fund has an unused capital loss carryover of $283,758,229 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to December 31, 2004. If not applied, $160,153,013 of the carryover expires in fiscal 2009, $103,833,733 expires in fiscal 2010 and $19,771,483 expires in fiscal 2011.

The tax character of distributions paid to shareholders during the fiscal year ended December 31, 2004 was as follows: ordinary income $1,911,425. The tax character of current year distributions, if any, will be determined at the end of the current fiscal year.

## NOTE 2—Bank Line of Credit:

The fund participates with other Dreyfus-managed funds in a $350 million redemption credit facility (the "Facility") to be utilized for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay commitment fees on its pro rata portion of the Facility. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowings. During the period ended June 30, 2005, the fund did not borrow under the Facility.

## NOTE 3—Investment Advisory Fee and Other Transactions with Affiliates:

**(a)** Pursuant to an Investment Advisory Agreement with the Manager, the investment advisory fee is computed at the annual rate of .75 of 1% of the value of the fund's average daily net assets and is payable monthly.

**(b)** Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25 of 1% of the value of the Service shares' average daily net assets. The Distributor may make payments to Participating Insurance Companies and to brokers and dealers acting as principal underwriter for their variable insurance products. The fees payable under the Plan are payable without regard to actual expenses incurred. During the period ended June 30, 2005, Service shares were charged $16,305 pursuant to the Plan.

**(c)** Under the Shareholder Services Plan, Initial shares reimburse the Distributor an amount not to exceed an annual rate of .25 of 1% of the value of Initial shares' average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares shareholder accounts. During the period ended June 30, 2005, Initial shares were charged $7,987 pursuant to the Shareholder Services Plan.

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended June 30, 2005, the fund was charged $631 pursuant to the transfer agency agreement.

The fund compensates Mellon Bank, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services for the fund. During the period ended June 30, 2005, the fund was charged $20,488 pursuant to the custody agreement.

During the period ended June 30, 2005, the fund was charged $1,998 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: investment advisory fees $284,963, Rule 12b-1 distribution plan fees $2,700, shareholder services plan fees $645, custodian fees $9,343, chief compliance officer fees $1,998 and transfer agency per account fees $211.

**(d)** Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

### NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended June 30, 2005, amounted to $215,015,504 and $250,379,431, respectively.

At June 30, 2005, accumulated net unrealized appreciation on investments was $45,987,737, consisting of $58,279,311 gross unrealized appreciation and $12,291,574 gross unrealized depreciation.

At June 30, 2005, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

### NOTE 5—Legal Matters:

In early 2004, two purported class and derivative actions were filed against Mellon Financial, Mellon Bank, N.A., Dreyfus, Founders Asset Management LLC, and certain directors of the Dreyfus Funds and the Dreyfus Founders Funds (together, the "Funds") in the United States District Court for the Western District of Pennsylvania. In September 2004, plaintiffs served a Consolidated Amended Complaint (the "Amended Complaint") on behalf of a purported class of all persons who acquired interests in any of the Funds between January 30, 1999 and November 17, 2003, and derivatively on behalf of the Funds. The Amended Complaint in the newly styled In re Dreyfus Mutual Funds Fee Litigation also named the Distributor, Premier Mutual Fund Services, Inc. and two additional Fund directors as defendants and alleges violations of the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Pennsylvania Unfair Trade Practices and Consumer Protection Law and common-law claims. Plaintiffs seek to recover allegedly improper and excessive Rule 12b-1 and advisory fees allegedly charged to the Funds for marketing and distribution services. More specifically, plaintiffs claim, among other things, that 12b-1 fees and directed brokerage were improperly used to pay brokers to recommend the Funds over other funds, and that such payments were not disclosed to investors. In addition, plaintiffs assert that economies of scale and soft-dollar benefits were not passed on to the Funds. Plaintiffs further allege that 12b-1 fees were improperly charged to certain of the Funds that were closed to new investors. The Amended Complaint seeks compensatory and punitive damages, rescission of the advisory contracts, and an accounting and restitution of any unlawful fees, as well as an award of attorneys' fees and litigation expenses. As noted, some of the claims in this litigation are asserted derivatively on behalf of the Funds that have been named as nominal defendants. With respect to such derivative claims, no relief is sought against the Funds. Dreyfus believes the allegations to be totally without merit and intends to defend the action vigorously. In November 2004, all named defendants moved to dismiss the Amended Complaint in whole or substantial part. Briefing was completed in May 2005.

Additional lawsuits arising out of these circumstances and presenting similar allegations and requests for relief may be filed against the defendants in the future. Neither Dreyfus nor the Funds believe that any of the pending actions will have a material adverse effect on the Funds or Dreyfus' ability to perform its contract with the Funds.

NOTES

# For More Information

**The Dreyfus Socially Responsible Growth Fund, Inc.**
200 Park Avenue
New York, NY 10166

**Investment Adviser**

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

**Custodian**

Mellon Bank, N.A.
One Mellon Bank Center
Pittsburgh, PA 15258

**Transfer Agent & Dividend Disbursing Agent**

Dreyfus Transfer, Inc.
200 Park Avenue
New York, NY 10166

**Distributor**

Dreyfus Service Corporation
200 Park Avenue
New York, NY 10166

**Telephone** 1-800-554-4611 or 516-338-3300

**Mail** The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Institutional Servicing

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the 12-month period ended June 30, 2005, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.

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SCUDDER
INVESTMENTS

# Scudder Variable Series I

Bond Portfolio

**Semiannual Report to Shareholders**
June 30, 2005

**This report must be preceded or accompanied by a prospectus. To obtain a prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the product's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the investment product. Please read the prospectus carefully before you invest.**

## Bond Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,026.00 | $ 1,016.00 |
| Expenses Paid per $1,000* | $ 3.11 | $ 1.71 |

| Hypothetical 5% Portfolio Return | Class A | Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.72 | $ 1,006.38 |
| Expenses Paid per $1,000* | $ 3.11 | $ 1.70 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365. For Class B shares the average account value over the period was multiplied by the number of days since commencement (May 3, 2005), then divided by 365.*

| Annualized Expense Ratios | Class A | Class B** |
|---|---|---|
| Scudder Variable Series I — Bond Portfolio | .62% | 1.05% |

** *For the period May 3, 2005 (commencement of operations of Class B shares) to June 30, 2005.*

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Bond Portfolio

The "conundrum" of falling long-term interest rates in the face of tightening by the US Federal Reserve Board (the Fed) characterized the first half of 2005. The Fed surprised almost no one by continuing its "measured" tightening policy, increasing the fed funds rate by 1.0%. In contrast, the 10-year Treasury yield declined from 4.2% to 3.9% during the six-month period as the yield curve continued to flatten. All of the non-Treasury sectors of the bond market, with the exception of corporate bonds, outperformed Treasury issues. Against this backdrop, the portfolio posted a positive return of 2.60% (Class A shares, unadjusted for contract charges) for the six-month period, outpacing the 2.51% return of its benchmark, the Lehman Brothers Aggregate Bond Index.

Performance relative to the market benefited from security selection within the corporate sector. Specifically, bottom-up analysis led to overweight positions in the utilities and financials sectors and an underweight position in the auto sector. Select holdings of international government bonds in both developed and emerging markets further contributed to performance relative to the benchmark, as these holdings outperformed Treasury issues on balance. In contrast, an allocation to high yield detracted somewhat from returns despite a strong rebound in the performance of the sector toward the end of the period. We continue to employ our bottom-up, security selection driven process to identify undervalued bonds with the goal of generating consistent excess returns that are attractive on both an absolute and risk-adjusted basis.

| *Co-Lead Managers* | | *Portfolio Managers* | |
|---|---|---|---|
| Gary W. Bartlett, CFA | J. Christopher Gagnier | Brett Diment | William T. Lissenden |
| Andrew P. Cestone | Daniel R. Taylor, CFA | Edwin Gutierrez | Catharine Peppiatt |
| Warren S. Davis | Timothy C. Vile | Stephen Ilott | Bruce Rodio |
| Thomas J. Flaherty | | Paul Lambert | Ian Winship |

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investments by the portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Please see this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Lehman Brothers Aggregate Bond (LBAB) Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Yield, or coupon rate, is simply the interest paid by a bond at the time it matures (is paid back to the purchaser). A bond with a 10% coupon or interest rate yields 10% of its principal when it matures.*

*The yield curve is a graph with a left–to–right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep" this is especially true), the line rises from left to right as investors who are willing to tie up their money for a longer period of time are rewarded with higher yields.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Bond Portfolio

| Asset Allocation (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Corporate Bonds | 20% | 21% |
| Collateralized Mortgage Obligations | 18% | 23% |
| US Government Backed | 13% | 15% |
| Foreign Bonds — US$ Denominated | 11% | 9% |
| Commercial and Non-Agency Mortgage-Backed Securities | 9% | 8% |
| Foreign Bonds — Non US$ Denominated | 8% | 5% |
| US Government Agency Sponsored Pass-Throughs | 7% | 6% |
| Asset Backed | 5% | 6% |
| Municipal Bonds and Notes | 5% | 4% |
| Cash Equivalents | 3% | 2% |
| Government National Mortgage Association | 1% | 1% |
| | 100% | 100% |

| Quality (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| US Government & Treasury Obligations | 39% | 45% |
| AAA* | 24% | 21% |
| AA | 3% | 4% |
| A | 10% | 9% |
| BBB | 15% | 13% |
| BB or Below | 9% | 8% |
| | 100% | 100% |

| Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Under 1 year | 10% | 7% |
| 1 < 5 years | 44% | 48% |
| 5 < 10 years | 32% | 45% |
| 10 < 15 years | 5% | — |
| 15 + years | 9% | — |
| | 100% | 100% |

* *Category includes cash equivalents*

*Asset allocation, quality and effective maturity are subject to change.*

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Portfolio's credit quality does not remove market risk.*

*For more complete details about the Portfolio's investment portfolio, see page 5. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Bond Portfolio

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Corporate Bonds 20.2%** | | |
| **Consumer Discretionary 2.1%** | | |
| 155 East Tropicana LLC/Finance, 144A, 8.75%, 4/1/2012 (f) | 30,000 | 29,175 |
| Adesa, Inc., 7.625%, 6/15/2012 | 25,000 | 25,375 |
| Auburn Hills Trust, 12.375%, 5/1/2020 | 70,000 | 105,982 |
| AutoNation, Inc., 9.0%, 8/1/2008 | 35,000 | 38,237 |
| Aztar Corp., 7.875%, 6/15/2014 (f) | 60,000 | 63,450 |
| Cablevision Systems New York Group, Series B, 7.89%*, 4/1/2009 | 25,000 | 25,063 |
| Caesars Entertainment, Inc.: | | |
| 8.875%, 9/15/2008 | 25,000 | 27,906 |
| 9.375%, 2/15/2007 | 25,000 | 26,875 |
| Comcast MO of Delaware, Inc., 9.0%, 9/1/2008 | 400,000 | 453,351 |
| Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 | 40,000 | 31,600 |
| CSC Holdings, Inc.: | | |
| 7.25%, 7/15/2008 | 20,000 | 20,050 |
| 7.875%, 12/15/2007 | 50,000 | 51,625 |
| DaimlerChrysler NA Holding Corp., 4.75%, 1/15/2008 | 481,000 | 482,859 |
| Dex Media East LLC/Financial, 12.125%, 11/15/2012 | 114,000 | 136,515 |
| Dura Operating Corp., Series B, 8.625%, 4/15/2012 (f) | 25,000 | 22,500 |
| EchoStar DBS Corp., 6.625%, 10/1/2014 | 30,000 | 29,625 |
| Foot Locker, Inc., 8.5%, 1/15/2022 | 30,000 | 32,925 |
| Gregg Appliances, Inc., 144A, 9.0%, 2/1/2013 | 20,000 | 18,750 |
| ITT Corp., 7.375%, 11/15/2015 | 30,000 | 33,375 |
| Jacobs Entertainment, Inc.: | | |
| 11.875%, 2/1/2009 | 70,000 | 75,512 |
| 144A, 11.875%, 2/1/2009 | 10,000 | 10,788 |
| Liberty Media Corp., 5.7%, 5/15/2013 (f) | 230,000 | 213,924 |
| Mandalay Resort Group, 6.5%, 7/31/2009 (f) | 94,000 | 96,115 |
| Mediacom LLC, 9.5%, 1/15/2013 (f) | 35,000 | 34,913 |
| MGM MIRAGE: | | |
| 6.0%, 10/1/2009 | 195,000 | 195,975 |
| 8.375%, 2/1/2011 (f) | 65,000 | 70,850 |
| 9.75%, 6/1/2007 | 40,000 | 43,350 |
| MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010 | 20,000 | 21,700 |
| NCL Corp., 144A, 11.625%, 7/15/2014 | 30,000 | 31,575 |
| Petro Stopping Centers, 9.0%, 2/15/2012 | 50,000 | 50,250 |
| Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012 | 35,000 | 33,950 |
| PRIMEDIA, Inc.: | | |
| 8.638%*, 5/15/2010 | 55,000 | 57,475 |
| 8.875%, 5/15/2011 | 55,000 | 57,612 |
| Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009 | 45,000 | 51,244 |
| Restaurant Co., 11.25%, 5/15/2008 | 37,640 | 37,640 |
| Schuler Homes, Inc., 10.5%, 7/15/2011 | 45,000 | 49,612 |
| Sinclair Broadcast Group, Inc.: | | |
| 8.0%, 3/15/2012 | 45,000 | 46,125 |
| 8.75%, 12/15/2011 | 65,000 | 68,250 |
| Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013 | 30,000 | 30,300 |
| TCI Communications, Inc., 8.75%, 8/1/2015 | 348,000 | 446,407 |
| Tele-Communications, Inc., 10.125%, 4/15/2022 | 168,000 | 246,408 |
| Toys "R" Us, Inc., 7.375%, 10/15/2018 | 35,000 | 28,350 |
| TRW Automotive, Inc., 11.0%, 2/15/2013 (f) | 65,000 | 74,750 |
| United Auto Group, Inc., 9.625%, 3/15/2012 | 45,000 | 48,037 |
| Wheeling Island Gaming, Inc., 10.125%, 12/15/2009 | 25,000 | 26,500 |
| Williams Scotsman, Inc., 9.875%, 6/1/2007 | 80,000 | 80,400 |
| Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014 | 45,000 | 43,762 |
| | | **3,927,012** |
| **Consumer Staples 0.1%** | | |
| Agrilink Foods, Inc., 11.875%, 11/1/2008 | 12,000 | 12,405 |
| Alliance One International, Inc., 144A, 11.0%, 5/15/2012 | 35,000 | 36,050 |
| GNC Corp., 144A, 8.625%, 1/15/2011 | 10,000 | 9,250 |
| Pinnacle Foods Holding Corp., 8.25%, 12/1/2013 (f) | 25,000 | 22,375 |
| Swift & Co.: | | |
| 10.125%, 10/1/2009 | 35,000 | 38,150 |
| 12.5%, 1/1/2010 | 15,000 | 16,744 |
| Viskase Co., Inc., 11.5%, 6/15/2011 | 45,000 | 48,600 |
| | | **183,574** |
| **Energy 1.5%** | | |
| Chesapeake Energy Corp., 6.875%, 1/15/2016 | 20,000 | 20,850 |
| CITGO Petroleum Corp., 6.0%, 10/15/2011 | 65,000 | 64,838 |
| Dynegy Holdings, Inc., 144A, 9.875%, 7/15/2010 | 55,000 | 60,775 |
| Edison Mission Energy, 7.73%, 6/15/2009 | 130,000 | 136,987 |
| El Paso Production Holding Corp., 7.75%, 6/1/2013 | 35,000 | 37,363 |
| Enterprise Products Operating LP: | | |
| 144A, 5.0%, 3/1/2015 | 125,000 | 122,741 |
| 7.5%, 2/1/2011 | 347,000 | 389,890 |
| Newpark Resources, Inc., Series B, 8.625%, 12/15/2007 | 60,000 | 59,400 |
| Sempra Energy, 4.621%, 5/17/2007 | 760,000 | 763,589 |
| Southern Natural Gas, 8.875%, 3/15/2010 | 35,000 | 38,392 |
| Stone Energy Corp.: | | |
| 6.75%, 12/15/2014 | 20,000 | 19,450 |
| 8.25%, 12/15/2011 | 55,000 | 57,613 |
| Tri-State Generation & Transmission Association, 144A, 6.04%, 1/31/2018 | 880,000 | 914,558 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Whiting Petroleum Corp., 7.25%, 5/1/2012 | 20,000 | 20,500 |
| Williams Companies, Inc.: | | |
| 8.125%, 3/15/2012 | 65,000 | 73,775 |
| 8.75%, 3/15/2032 | 30,000 | 36,037 |
| | | **2,816,758** |
| **Financials 8.4%** | | |
| AIG SunAmerica Global Finance IX, 144A, 5.1%, 1/17/2007 | 505,000 | 511,274 |
| Allstate Corp., 5.55%, 5/9/2035 | 220,000 | 227,654 |
| American General Finance Corp.: | | |
| 2.75%, 6/15/2008 | 1,145,000 | 1,093,967 |
| Series I, 4.875%, 5/15/2010 | 170,000 | 171,648 |
| AmeriCredit Corp., 9.25%, 5/1/2009 | 85,000 | 90,525 |
| Berkshire Hathaway Finance Corp., 144A, 3.18%*, 1/11/2008 (f) | 1,416,000 | 1,416,725 |
| BF Saul Real Estate Investment Trust, (REIT), 7.5%, 3/1/2014 | 30,000 | 31,050 |
| Downey Financial Corp., 6.5%, 7/1/2014 | 745,000 | 796,159 |
| Duke Capital LLC, 4.302%, 5/18/2006 | 817,000 | 818,699 |
| E*TRADE Financial Corp., 8.0%, 6/15/2011 | 50,000 | 52,625 |
| Erac USA Finance Co.: | | |
| 144A, 5.6%, 5/1/2015 | 455,000 | 470,157 |
| 144A, 8.0%, 1/15/2011 | 330,000 | 382,115 |
| Farmers Exchange Capital, 144A, 7.2%, 7/15/2048 | 485,000 | 527,074 |
| Ford Motor Credit Co.: | | |
| 5.8%, 1/12/2009 | 177,000 | 168,025 |
| 6.875%, 2/1/2006 | 2,789,000 | 2,816,876 |
| 7.25%, 10/25/2011 | 55,000 | 52,925 |
| General Motors Acceptance Corp.: | | |
| 4.13%*, 3/20/2007 | 55,000 | 53,341 |
| 6.125%, 8/28/2007 (f) | 15,000 | 14,846 |
| 6.75%, 1/15/2006 | 965,000 | 972,614 |
| 6.75%, 12/1/2014 (f) | 30,000 | 26,840 |
| 6.875%, 9/15/2011 | 20,000 | 18,462 |
| 8.0%, 11/1/2031 | 165,000 | 147,236 |
| H&E Equipment/Finance, 11.125%, 6/15/2012 | 40,000 | 44,100 |
| JPMorgan Chase Capital XV, 5.875%, 3/15/2035 | 250,000 | 256,604 |
| Merrill Lynch & Co., Inc., Series C, 5.0%, 1/15/2015 (f) | 230,000 | 235,505 |
| NLV Financial Corp., 144A, 6.5%, 3/15/2035 | 734,000 | 751,228 |
| North Front Pass-Through Trust, 144A, 5.81%, 12/15/2024 | 250,000 | 257,606 |
| OMX Timber Finance Investment LLC, 144A, 5.42%, 1/29/2020 | 330,000 | 342,510 |
| Pennsylvania Mutual Life Insurance Co., 144A, 6.65%, 6/15/2034 | 505,000 | 586,953 |
| Poster Financial Group, Inc., 8.75%, 12/1/2011 | 45,000 | 45,788 |
| PXRE Capital Trust I, 8.85%, 2/1/2027 | 40,000 | 41,477 |
| R.H. Donnelly Finance Corp., 10.875%, 12/15/2012 | 40,000 | 46,500 |
| RC Royalty Subordinated LLC, 7.0%, 1/1/2018 | 30,000 | 24,600 |
| Simon Property Group L.P., (REIT), 144A, 4.6%, 6/15/2010 | 345,000 | 345,192 |
| The Goldman Sachs Group, Inc.: | | |
| 4.75%, 7/15/2013 | 515,000 | 514,569 |
| 5.125%, 1/15/2015 | 260,000 | 264,823 |
| TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027 | 45,000 | 36,450 |
| Triad Acquisition, 144A, 11.125%, 5/1/2013 | 25,000 | 25,313 |
| UGS Corp., 10.0%, 6/1/2012 | 55,000 | 61,050 |
| Universal City Development, 11.75%, 4/1/2010 | 55,000 | 63,112 |
| Wells Fargo & Co., 4.2%, 1/15/2010 | 501,000 | 500,736 |
| | | **15,304,953** |
| **Health Care 0.1%** | | |
| Cinacalcet Royalty Subordinated LLC, 144A, 8.0%, 3/30/2017 | 25,000 | 25,250 |
| Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 (f) | 10,000 | 9,225 |
| HEALTHSOUTH Corp., 10.75%, 10/1/2008 | 45,000 | 46,800 |
| InSight Health Services Corp., Series B, 9.875%, 11/1/2011 | 20,000 | 15,600 |
| Tenet Healthcare Corp.: | | |
| 6.375%, 12/1/2011 | 10,000 | 9,525 |
| 144A, 9.25%, 2/1/2015 | 75,000 | 77,813 |
| | | **184,213** |
| **Industrials 2.5%** | | |
| Allied Waste North America, Inc.: | | |
| Series B, 5.75%, 2/15/2011 | 35,000 | 32,725 |
| Series B, 9.25%, 9/1/2012 | 50,000 | 54,000 |
| America West Airlines, Inc., Series 99-1, 7.93%, 1/2/2019 | 252,105 | 278,866 |
| Avondale Mills, Inc., 144A, 10.093%*, 7/1/2012 | 35,000 | 32,900 |
| BAE System 2001 Asset Trust, "B", Series 2001, 144A, 7.156%, 12/15/2011 | 399,066 | 427,716 |
| Bear Creek Corp., 144A, 8.33%*, 3/1/2012 | 25,000 | 24,250 |
| Beazer Homes USA, Inc.: | | |
| 8.375%, 4/15/2012 | 35,000 | 37,537 |
| 8.625%, 5/15/2011 | 25,000 | 26,500 |
| Browning-Ferris Industries: | | |
| 7.4%, 9/15/2035 | 55,000 | 47,300 |
| 9.25%, 5/1/2021 | 10,000 | 10,125 |
| Cenveo Corp., 7.875%, 12/1/2013 | 40,000 | 38,000 |
| Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 | 45,000 | 46,575 |
| Columbus McKinnon Corp., 10.0%, 8/1/2010 | 35,000 | 37,975 |
| Compression Polymers Corp.: | | |
| 144A, 10.46%*, 7/1/2012 | 15,000 | 15,000 |
| 144A, 10.5%, 7/1/2013 | 15,000 | 15,000 |
| Cornell Companies, Inc., 10.75%, 7/1/2012 | 35,000 | 36,313 |
| D.R. Horton, Inc.: | | |
| 5.375%, 6/15/2012 | 765,000 | 760,793 |
| 5.625%, 9/15/2014 (f) | 181,000 | 180,739 |
| Dana Corp., 7.0%, 3/1/2029 | 50,000 | 43,680 |
| Erico International Corp., 8.875%, 3/1/2012 | 30,000 | 30,450 |
| ISP Chemco, Inc., Series B, 10.25%, 7/1/2011 | 75,000 | 81,750 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| K. Hovnanian Enterprises, Inc.: | | |
| 6.25%, 1/15/2015 (f) | 405,000 | 399,937 |
| 8.875%, 4/1/2012 | 40,000 | 43,300 |
| Kansas City Southern: | | |
| 7.5%, 6/15/2009 | 25,000 | 25,812 |
| 9.5%, 10/1/2008 | 70,000 | 76,300 |
| Laidlaw International, Inc., 10.75%, 6/15/2011 | 45,000 | 52,726 |
| Millennium America, Inc., 9.25%, 6/15/2008 | 80,000 | 86,600 |
| Northwest Airlines Corp., Series 02-1, 6.264%, 11/20/2021 | 1,225,677 | 1,274,569 |
| Securus Technologies, Inc., 144A, 11.0%, 9/1/2011 | 25,000 | 21,125 |
| Ship Finance International Ltd., 8.5%, 12/15/2013 | 60,000 | 57,075 |
| Technical Olympic USA, Inc.: | | |
| 7.5%, 3/15/2011 | 25,000 | 23,250 |
| 10.375%, 7/1/2012 | 60,000 | 62,700 |
| The Brickman Group Ltd., Series B, 11.75%, 12/15/2009 | 30,000 | 33,975 |
| United Rentals North America, Inc., 7.0%, 2/15/2014 (f) | 55,000 | 52,388 |
| Xerox Capital Trust I, 8.0%, 2/1/2027 | 25,000 | 25,875 |
| | | **4,493,826** |
| **Information Technology 0.2%** | | |
| Activant Solutions, Inc.: | | |
| 144A, 8.9%*, 4/1/2010 | 15,000 | 15,525 |
| 10.5%, 6/15/2011 | 35,000 | 37,975 |
| Lucent Technologies, Inc.: | | |
| 6.45%, 3/15/2029 | 70,000 | 62,650 |
| 7.25%, 7/15/2006 (f) | 25,000 | 25,562 |
| Sanmina-SCI Corp.: | | |
| 144A, 6.75%, 3/1/2013 (f) | 80,000 | 76,400 |
| 10.375%, 1/15/2010 | 58,000 | 64,380 |
| | | **282,492** |
| **Materials 1.7%** | | |
| ARCO Chemical Co., 9.8%, 2/1/2020 | 115,000 | 128,800 |
| Caraustar Industries, Inc., 9.875%, 4/1/2011 | 20,000 | 20,150 |
| Constar International, Inc., 144A, 6.643%*, 2/15/2012 | 20,000 | 19,100 |
| Dayton Superior Corp., 10.75%, 9/15/2008 | 50,000 | 52,000 |
| GEO Specialty Chemicals, Inc., 11.62%, 12/31/2009 | 38,000 | 40,280 |
| Georgia-Pacific Corp.: | | |
| 7.75%, 11/15/2029 | 305,000 | 342,744 |
| 8.0%, 1/15/2024 | 65,000 | 74,750 |
| 8.875%, 5/15/2031 | 435,000 | 538,312 |
| 9.375%, 2/1/2013 | 50,000 | 56,563 |
| Hercules, Inc., 6.75%, 10/15/2029 | 40,000 | 38,800 |
| Huntsman Advanced Materials LLC, 11.0%, 7/15/2010 | 55,000 | 62,150 |
| Huntsman LLC, 11.625%, 10/15/2010 | 56,000 | 65,590 |
| IMC Global, Inc.: | | |
| 7.375%, 8/1/2018 | 20,000 | 20,000 |
| 10.875%, 8/1/2013 (f) | 45,000 | 52,762 |
| Lubrizol Corp., 5.5%, 10/1/2014 | 1,010,000 | 1,041,629 |
| Omnova Solutions, Inc., 11.25%, 6/1/2010 | 65,000 | 68,250 |

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Oregon Steel Mills, Inc., 10.0%, 7/15/2009 | 25,000 | 26,937 |
| Rockwood Specialties Group, Inc., 10.625%, 5/15/2011 | 15,000 | 16,763 |
| Sheffield Steel Corp., 11.375%, 8/15/2011 | 25,000 | 24,250 |
| Texas Industries, Inc., 10.25%, 6/15/2011 | 55,000 | 63,731 |
| TriMas Corp., 9.875%, 6/15/2012 | 65,000 | 54,600 |
| UAP Holding Corp., Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012 | 30,000 | 24,600 |
| United States Steel Corp., 9.75%, 5/15/2010 | 60,000 | 64,800 |
| Weyerhaeuser Co.: | | |
| 7.125%, 7/15/2023 | 100,000 | 111,929 |
| 7.375%, 3/15/2032 | 155,000 | 182,772 |
| | | **3,192,262** |
| **Telecommunication Services 1.0%** | | |
| AirGate PCS, Inc., 6.891%*, 10/15/2011 | 10,000 | 10,225 |
| Anixter International, Inc., 5.95%, 3/1/2015 | 87,000 | 86,212 |
| AT&T Corp.: | | |
| 9.05%, 11/15/2011 | 45,000 | 51,863 |
| 9.75%, 11/15/2031 | 45,000 | 58,556 |
| Bell Atlantic New Jersey, Inc., Series A, 5.875%, 1/17/2012 | 620,000 | 655,411 |
| Cincinnati Bell, Inc.: | | |
| 7.25%, 7/15/2013 (f) | 10,000 | 10,500 |
| 8.375%, 1/15/2014 (f) | 85,000 | 87,125 |
| 144A, 8.375%, 1/15/2014 | 10,000 | 10,250 |
| Insight Midwest LP, 9.75%, 10/1/2009 | 25,000 | 25,906 |
| LCI International, Inc., 7.25%, 6/15/2007 | 50,000 | 48,500 |
| MCI, Inc., 8.735%, 5/1/2014 | 60,000 | 67,275 |
| Nextel Communications, Inc.: | | |
| 5.95%, 3/15/2014 | 20,000 | 20,775 |
| 7.375%, 8/1/2015 | 105,000 | 113,400 |
| Nextel Partners, Inc., 8.125%, 7/1/2011 | 30,000 | 32,550 |
| Northern Telecom Capital, 7.875%, 6/15/2026 | 30,000 | 30,000 |
| Qwest Corp.: | | |
| 144A, 6.671%*, 6/15/2013 | 15,000 | 15,356 |
| 7.25%, 9/15/2025 | 100,000 | 93,500 |
| SBC Communications, Inc., 6.15%, 9/15/2034 (f) | 383,000 | 414,880 |
| | | **1,832,284** |
| **Utilities 2.6%** | | |
| AES Corp., 144A, 8.75%, 5/15/2013 | 65,000 | 72,637 |
| Allegheny Energy Supply Co. LLC: | | |
| 144A, 8.25%, 4/15/2012 (f) | 85,000 | 95,200 |
| Series A, 144A, 10.25%, 11/15/2007 | 20,000 | 22,000 |
| Series B, 144A, 13.0%, 11/15/2007 | 25,000 | 27,594 |
| CC Funding Trust I, 6.9%, 2/16/2007 | 758,000 | 789,524 |
| CMS Energy Corp.: | | |
| 8.5%, 4/15/2011 | 45,000 | 50,175 |
| 9.875%, 10/15/2007 | 80,000 | 87,200 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Consumers Energy Co., Series F, 4.0%, 5/15/2010 | 980,000 | 955,779 |
| DPL, Inc., 6.875%, 9/1/2011 | 45,000 | 48,600 |
| NorthWestern Corp., 144A, 5.875%, 11/1/2014 | 25,000 | 25,625 |
| NRG Energy, Inc., 144A, 8.0%, 12/15/2013 | 80,000 | 84,400 |
| Progress Energy, Inc., 6.75%, 3/1/2006 | 1,400,000 | 1,423,874 |
| PSE&G Energy Holdings LLC: | | |
| 8.5%, 6/15/2011 | 40,000 | 43,600 |
| 10.0%, 10/1/2009 | 65,000 | 72,962 |
| San Diego Gas & Electric Co., 5.35%, 5/15/2035 | 675,000 | 699,735 |
| TXU Energy Co., 7.0%, 3/15/2013 | 235,000 | 262,080 |
| | | **4,760,985** |
| **Total Corporate Bonds** (Cost $36,695,943) | | **36,978,359** |

## Foreign Bonds — US$ Denominated 11.4%

### Consumer Discretionary 0.1%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Jafra Cosmetics International, Inc., 10.75%, 5/15/2011 | 49,000 | 54,880 |
| Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014 | 55,000 | 59,675 |
| Shaw Communications, Inc., 8.25%, 4/11/2010 | 70,000 | 77,700 |
| Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011 | 25,000 | 24,250 |
| | | **216,505** |

### Consumer Staples 0.1%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Burns Philp Capital Property Ltd., 10.75%, 2/15/2011 | 40,000 | 44,100 |
| Grupo Cosan SA, 144A, 9.0%, 11/1/2009 | 20,000 | 20,700 |
| | | **64,800** |

### Energy 0.2%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Luscar Coal Ltd., 9.75%, 10/15/2011 | 60,000 | 66,000 |
| OAO Gazprom, 144A, 9.625%, 3/1/2013 | 100,000 | 122,625 |
| Petroleum Geo-Services ASA, 10.0%, 11/5/2010 | 111,001 | 124,321 |
| Secunda International Ltd., 11.141%*, 9/1/2012 | 25,000 | 24,375 |
| | | **337,321** |

### Financials 4.3%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Barclays Bank PLC, 1.0%, 12/15/2049 | 340,000 | 347,344 |
| BNP Paribas SA, 144A, 5.186%, 6/29/2049 | 650,000 | 657,161 |
| Chuo Mitsui Trust & Banking Co., Ltd, 144A, 5.506%, 12/29/2049 | 670,000 | 658,225 |
| DBS Capital Funding Corp., 144A, 7.657%, 3/31/2049 | 181,000 | 207,442 |
| Eircom Funding, 8.25%, 8/15/2013 | 40,000 | 43,400 |
| Mantis Reef Ltd., 144A, 4.692%, 11/14/2008 | 1,330,000 | 1,334,021 |
| Mizuho Financial Group, (Cayman), 8.375%, 4/27/2049 | 1,320,000 | 1,443,420 |
| Nordea Bank AB, 144A, 5.424%, 12/29/2049 | 740,000 | 762,119 |
| Royal Bank of Scotland Group PLC, Series 1, 9.118%, 3/31/2049 | 364,000 | 433,501 |
| SPI Electricity & Gas Australia Holdings Property Ltd., 144A, 6.15%, 11/15/2013 | 635,000 | 693,682 |
| Westfield Capital Corp., 144A, 4.375%, 11/15/2010 | 1,300,000 | 1,297,971 |
| | | **7,878,286** |

### Health Care 0.0%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Biovail Corp., 7.875%, 4/1/2010 | 40,000 | **40,900** |

### Industrials 1.5%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| CP Ships Ltd., 10.375%, 7/15/2012 | 45,000 | 50,400 |
| Grupo Transportacion Ferroviaria Mexicana SA de CV: | | |
| 144A, 9.375%, 5/1/2012 | 50,000 | 52,000 |
| 10.25%, 6/15/2007 | 80,000 | 85,600 |
| 12.5%, 6/15/2012 | 30,000 | 35,100 |
| LeGrand SA, 8.5%, 2/15/2025 | 40,000 | 48,400 |
| Stena AB, 9.625%, 12/1/2012 | 30,000 | 32,700 |
| Tyco International Group SA: | | |
| 6.375%, 10/15/2011 | 960,000 | 1,054,373 |
| 6.75%, 2/15/2011 | 996,000 | 1,105,662 |
| 7.0%, 6/15/2028 | 194,000 | 233,962 |
| | | **2,698,197** |

### Materials 1.4%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Alrosa Finance SA, 144A, 8.875%, 11/17/2014 | 35,000 | 39,550 |
| Cascades, Inc., 7.25%, 2/15/2013 | 60,000 | 58,650 |
| Celulosa Arauco y Constitucion SA, 8.625%, 8/15/2010 | 615,000 | 716,710 |
| Crown Euro Holdings SA, 10.875%, 3/1/2013 | 25,000 | 29,375 |
| ISPAT Inland ULC, 9.75%, 4/1/2014 | 56,000 | 65,240 |
| Sino-Forest Corp., 144A, 9.125%, 8/17/2011 | 10,000 | 10,925 |
| Sociedad Concesionaria Autopista Central, 144A, 6.223%, 12/15/2026 | 1,365,000 | 1,499,835 |
| Tembec Industries, Inc.: | | |
| 8.5%, 2/1/2011 (f) | 90,000 | 69,525 |
| 8.625%, 6/30/2009 (f) | 70,000 | 57,050 |
| | | **2,546,860** |

### Sovereign Bonds 1.3%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Aries Vermogensverwaltung GmbH, Series C, 9.6%, 10/25/2014 | 250,000 | 324,835 |
| Federative Republic of Brazil, 8.875%, 10/14/2019 | 25,000 | 26,500 |
| Republic of Bulgaria, 8.25%, 1/15/2015 | 560,000 | 705,096 |
| Republic of Indonesia, 7.25%, 4/20/2015 | 80,000 | 81,200 |
| Republic of Turkey: | | |
| 7.25%, 3/15/2015 (f) | 15,000 | 15,450 |
| 11.75%, 6/15/2010 | 90,000 | 111,825 |
| 11.875%, 1/15/2030 | 90,000 | 130,162 |
| Republic of Venezuela, 10.75%, 9/19/2013 (f) | 10,000 | 11,705 |
| Russian Federation, Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030 | 150,000 | 167,460 |

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| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Russian Ministry of Finance, Series V, 3.0%, 5/14/2008 | 250,000 | 235,875 |
| United Mexican States: | | |
| Series A, 6.75%, 9/27/2034 (f) | 500,000 | 530,000 |
| 8.375%, 1/14/2011 | 40,000 | 46,560 |
| | | **2,386,668** |
| **Telecommunication Services 2.1%** | | |
| America Movil SA de CV, 5.75%, 1/15/2015 | 590,000 | 599,064 |
| Axtel SA, 11.0%, 12/15/2013 | 25,000 | 27,250 |
| British Telecommunications PLC, 8.875%, 12/15/2030 | 935,000 | 1,319,896 |
| Embratel, Series B, 11.0%, 12/15/2008 | 20,000 | 22,750 |
| Intelsat Bermuda Ltd., 144A, 7.805%*, 1/15/2012 | 35,000 | 35,613 |
| Millicom International Cellular SA, 10.0%, 12/1/2013 | 45,000 | 44,775 |
| Mobifon Holdings BV, 12.5%, 7/31/2010 | 60,000 | 72,750 |
| Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010 | 20,000 | 20,750 |
| Nortel Networks Ltd., 6.125%, 2/15/2006 | 80,000 | 80,500 |
| Telecom Italia Capital: | | |
| 144A, 4.0%, 1/15/2010 | 175,000 | 170,043 |
| 5.25%, 11/15/2013 | 690,000 | 700,491 |
| Telefonos de Mexico SA de CV, Series L, 144A, 4.75%, 1/27/2010 | 795,000 | 794,332 |
| | | **3,888,214** |
| **Utilities 0.4%** | | |
| Scottish Power PLC, 5.81%, 3/15/2025 | 745,000 | **768,951** |
| **Total Foreign Bonds — US$ Denominated** (Cost $20,214,217) | | **20,826,702** |

## Foreign Bonds — Non US$ Denominated 8.1%

| | | Principal Amount ($)(g) | Value ($) |
|---|---|---|---|
| **Sovereign Bonds 8.1%** | | | |
| Federal Republic of Germany, 144A, 3.25%, 4/17/2009 | EUR | 4,270,000 | 5,343,809 |
| Government of Malaysia, 4.305%, 2/27/2009 | MYR | 3,901,208 | 1,060,175 |
| Mexican Bonds: | | | |
| Series M-20, 8.0%, 12/7/2023 | MXN | 3,660,000 | 289,468 |
| Series MI-10, 8.0%, 12/19/2013 | MXN | 22,867,700 | 1,960,733 |
| Series MI-10, 9.5%, 12/18/2014 | MXN | 10,029,000 | 937,831 |
| Series M-20, 10.0%, 12/5/2024 | MXN | 1,220,000 | 114,981 |
| Republic of Argentina: | | | |
| 5.83%, 12/31/2033 | ARS | 690,000 | 246,476 |
| 7.82%, 12/31/2033 | EUR | 74,287 | 80,324 |
| Republic of Colombia, 12.0%, 10/22/2015 | COP | 178,000,000 | 79,871 |
| Republic of Uruguay, 17.75%, 2/4/2006 | UYU | 6,500,000 | 294,195 |
| United Kingdom Treasury Bonds, 5.0%, 9/7/2014 | GBP | 2,277,211 | 4,338,757 |
| **Total Foreign Bonds — Non US$ Denominated** (Cost $14,206,446) | | | **14,746,620** |

## Asset Backed 5.5%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Automobile Receivables 1.7%** | | |
| Drive Auto Receivables Trust, "A2", Series 2005-2, 144A, 4.12%, 1/15/2010 | 460,000 | 460,180 |
| MMCA Automobile Trust: | | |
| "A4", Series 2002-3, 3.57%, 8/17/2009 | 261,158 | 260,670 |
| "A4", Series 2002-2, 4.3%, 3/15/2010 | 1,229,937 | 1,229,313 |
| "B", Series 2002-1, 5.37%, 1/15/2010 | 236,900 | 237,505 |
| Onyx Acceptance Owner Trust, "A3", Series 2003-D, 2.4%, 12/15/2007 | 898,666 | 895,052 |
| | | **3,082,720** |
| **Home Equity Loans 3.6%** | | |
| Bear Stearns Asset Backed Securities NIM, "A1", Series 2005-HE2N, 144A, 5.0%, 2/25/2035 | 532,632 | 532,632 |
| First Franklin Mortgage Loan NIM, "N4", Series 2004-FFH2, 144A, 5.926%, 8/25/2034 | 750,000 | 755,508 |
| New Century Home Equity Loan Trust, "A2", Series 2005-A, 4.461%, 8/25/2035 | 1,120,000 | 1,120,978 |
| Novastar NIM Trust, "NOTE", Series 2004-N1, 144A, 4.458%, 2/26/2034 | 63,818 | 63,795 |
| Park Place Securities NIM Trust, "A", Series 2004-WHQ2, 144A, 4.0%, 2/25/2035 | 424,731 | 423,808 |
| Renaissance Home Equity Loan Trust, "AF6", Series 2005-2, 4.781%, 8/25/2035 | 147,000 | 147,000 |
| Renaissance NIM Trust, "NOTE", Series 2004-C, 144A, 4.458%, 12/25/2034 | 511,670 | 511,829 |
| Residential Asset Mortgage Products, Inc.: | | |
| "A3", Series 2003-RZ4, 3.38%, 2/25/2030 | 805,000 | 798,847 |
| "AI3", Series 2004-RS4, 4.003%, 1/25/2030 | 1,070,000 | 1,067,115 |
| Residential Asset Securities Corp., "AI6", Series 2000-KS1, 7.905%, 2/25/2031 | 1,176,093 | 1,201,950 |
| | | **6,623,462** |
| **Industrials 0.2%** | | |
| Delta Air Lines, Inc., "G-2", Series 2002-1, 6.417%, 7/2/2012 | 395,000 | **415,560** |
| **Total Asset Backed** (Cost $10,229,684) | | **10,121,742** |

## Convertible Bond 0.0%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| DIMON, Inc., 6.25%, 3/31/2007 | 50,000 | 50,000 |
| HIH Capital Ltd., 144A, Series DOM, 7.5%, 9/25/2006 | 10,000 | 9,900 |
| **Total Convertible Bond** (Cost $57,617) | | **59,900** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **US Government Agency Sponsored Pass-Throughs 6.8%** | | |
| Federal Home Loan Mortgage Corp.: | | |
| 4.5%, 5/1/2024 | 840,212 | 829,964 |
| 5.5% with various maturities from 11/15/2016 until 8/1/2024 | 1,582,577 | 1,634,797 |
| Federal National Mortgage Association: | | |
| 4.5% with various maturities from 7/1/2018 until 6/1/2033 (h) | 1,237,736 | 1,222,258 |
| 5.0%, 8/1/2033 (h) | 855,000 | 855,000 |
| 5.115%, 1/1/2035 | 696,427 | 701,684 |
| 5.5% with various maturities from 1/1/2025 until 3/1/2035 | 1,475,407 | 1,501,037 |
| 5.732%, 9/1/2014 | 1,495,763 | 1,627,423 |
| 6.0%, 3/1/2025 | 697,890 | 719,022 |
| 6.31%, 6/1/2008 | 1,700,000 | 1,775,688 |
| 6.5% with various maturities from 3/1/2017 until 9/1/2034 | 1,477,816 | 1,533,581 |
| 8.0%, 9/1/2015 | 71,377 | 76,341 |
| **Total US Government Agency Sponsored Pass-Throughs** (Cost $12,416,282) | | **12,476,795** |
| **Commercial and Non-Agency Mortgage-Backed Securities 8.9%** | | |
| American Home Mortgage Investment Trust, "5A3", Series 2005-2, 5.077%, 9/25/2035 | 1,050,000 | 1,050,000 |
| Bank of America Mortgage Securities, "2A6", Series 2004-F, 4.168%*, 7/25/2034 | 1,180,000 | 1,179,905 |
| Chase Commercial Mortgage Securities Corp., "A2", Series 1996-2, 6.9%, 11/19/2028 | 615,527 | 624,017 |
| Citigroup Mortgage Loan Trust, Inc.: | | |
| "1A3", Series 2004-NCM1, 6.75%, 7/25/2034 | 652,225 | 674,850 |
| "1CB2", Series 2004-NCM2, 6.75%, 8/25/2034 | 1,187,507 | 1,233,151 |
| Countrywide Alternative Loan Trust: | | |
| "A1", Series 2004-1T1, 5.0%, 2/25/2034 | 1,046,320 | 1,043,823 |
| "A2", Series 2004-1T1, 5.5%, 2/25/2034 | 694,899 | 697,982 |
| GMAC Commercial Mortgage Securities, Inc., "A3", Series 1997-C1, 6.869%, 7/15/2029 | 529,252 | 552,654 |
| GS Mortgage Securities Corp. II, "AJ", Series 2005-GG4, 4.782%, 7/10/2039 | 1,501,000 | 1,513,704 |
| Master Alternative Loans Trust: | | |
| "5A1", Series 2005-1, 5.5%, 1/25/2020 | 1,257,348 | 1,284,575 |
| "3A1", Series 2004-5, 6.5%, 6/25/2034 | 122,298 | 125,623 |
| "5A1", Series 2005-2, 6.5%, 12/25/2034 | 357,495 | 364,258 |
| "8A1", Series 2004-3, 7.0%, 4/25/2034 | 236,777 | 242,235 |
| Master Asset Securitization Trust: | | |
| "2A7", Series 2003-9, 5.5%, 10/25/2033 | 697,999 | 709,346 |
| "8A1", Series 2003-6, 5.5%, 7/25/2033 | 711,218 | 715,885 |
| Residential Asset Securitization Trust, "A1", Series 2003-A11, 4.25%, 11/25/2033 | 494,884 | 494,043 |
| Structured Asset Securities Corp., "2A1", Series 2003-1, 6.0%, 2/25/2018 | 19,655 | 20,019 |
| Washington Mutual: | | |
| "A6", Series 2004-AR7, 3.953%*, 7/25/2034 | 740,000 | 731,253 |
| "A6", Series 2003-AR11, 3.985%, 10/25/2033 | 740,000 | 731,667 |
| "A6", Series 2003-AR10, 4.075%*, 10/25/2033 | 1,130,000 | 1,124,397 |
| "A7, Series 2004-AR9, 4.211%*, 8/25/2034 | 737,000 | 736,156 |
| "2A1", Series 2002-S8, 4.5%, 1/25/2018 | 295,033 | 294,591 |
| Wells Fargo Mortgage Backed Securities Trust, "1A3", Series 2002-18, 6.0%, 12/25/2032 | 54,966 | 54,897 |
| **Total Commercial and Non-Agency Mortgage-Backed Securities** (Cost $16,271,555) | | **16,199,031** |
| **Collateralized Mortgage Obligations 17.7%** | | |
| Fannie Mae Grantor Trust, "A2", Series 2002-T19, 7.0%, 7/25/2042 | 320,205 | 339,015 |
| Fannie Mae Whole Loan: | | |
| "1A1", Series 2004-W15, 6.0%, 8/25/2044 | 880,790 | 909,312 |
| "2A", Series 2003-W8, 7.0%, 10/25/2042 | 451,047 | 477,703 |
| "5A", Series 2004-W2, 7.5%, 3/25/2044 | 964,933 | 1,036,885 |
| Federal Home Loan Mortgage Corp.: | | |
| "LC", Series 2682, 4.5%, 7/15/2032 | 570,000 | 561,508 |
| "BG", Series 2869, 5.0%, 7/15/2033 | 185,000 | 186,459 |
| "EG", Series 2836, 5.0%, 12/15/2032 | 1,580,000 | 1,580,490 |
| "KD", Series 2915, 5.0%, 9/15/2033 | 1,140,000 | 1,139,003 |
| "ND", Series 2950, 5.0%, 6/15/2033 | 1,140,000 | 1,139,730 |
| "NE", Series 2802, 5.0%, 2/15/2033 | 1,580,000 | 1,583,922 |
| "OG", Series 2889, 5.0%, 5/15/2033 | 685,000 | 688,958 |
| "OL", Series 2840, 5.0%, 11/15/2022 | 1,335,000 | 1,357,443 |
| "PD", Series 2783, 5.0%, 1/15/2033 | 761,000 | 763,061 |
| "PD", Series 2844, 5.0%, 12/15/2032 | 1,580,000 | 1,582,040 |
| "PD", Series 2893, 5.0%, 2/15/2033 | 800,000 | 806,369 |
| "PD", Series 2939, 5.0%, 7/15/2033 | 535,000 | 534,485 |
| "PE", Series 2721, 5.0%, 1/15/2023 | 2,425,000 | 2,441,238 |
| "PE", Series 2898, 5.0%, 5/15/2033 | 335,000 | 336,581 |
| "TE", Series 2780, 5.0%, 1/15/2033 | 1,150,000 | 1,153,113 |
| "CH", Series 2390, 5.5%, 12/15/2016 | 200,000 | 207,578 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| "GD", Series 2497, 5.5%, 7/15/2014 | 248,929 | 249,211 |
| "MC", Series 2394, 6.0%, 12/15/2016 | 1,420,000 | 1,477,692 |
| "Z", Series 2173, 6.5%, 7/15/2029 | 1,041,110 | 1,087,104 |
| Federal National Mortgage Association: | | |
| "A2", Series 2003-63, 2.34%, 7/25/2044 | 84,867 | 84,617 |
| "WB", Series 2003-106, 4.5%, 10/25/2015 | 1,290,000 | 1,294,298 |
| "A2", Series 2002-W10, 4.7%, 8/25/2042 | 1,368 | 1,365 |
| "2A3", Series 2003-W15, 4.71%, 8/25/2043 | 718,684 | 718,030 |
| "EG", Series 2005-22, 5.0%, 11/25/2033 | 750,000 | 750,158 |
| "ME", Series 2005-14, 5.0%, 10/25/2033 | 1,525,000 | 1,521,413 |
| "PE", Series 2005-44, 5.0%, 7/25/2033 | 300,000 | 299,243 |
| "MC", Series 2002-56, 5.5%, 9/25/2017 | 586,245 | 599,658 |
| "OG", Series 2001-69, 5.5%, 12/25/2016 | 750,000 | 782,892 |
| "PG", Series 2002-3, 5.5%, 2/25/2017 | 500,000 | 522,395 |
| "QC", Series 2002-11, 5.5%, 3/25/2017 | 290,000 | 301,914 |
| "MG", Series 2002-2, 6.0%, 2/25/2017 | 1,285,818 | 1,335,576 |
| "PM", Series 2001-60, 6.0%, 3/25/2030 | 230,160 | 231,854 |
| "VD", Series 2002-56, 6.0%, 4/25/2020 | 117,584 | 118,862 |
| "A2", Series 2002-T4, 7.0%, 12/25/2041 | 986,740 | 1,041,645 |
| "ZQ", Series G92-9, 7.0%, 12/25/2021 | 260,768 | 266,948 |
| FHLMC Structured Pass-Through Securities, "1A2", Series T-59, 7.0%, 10/25/2043 | 468,020 | 496,563 |
| Government National Mortgage Association, "KA", Series 2002-5, 6.0%, 8/16/2026 | 248,081 | 249,487 |
| **Total Collateralized Mortgage Obligations** (Cost $32,004,437) | | **32,255,818** |

## Municipal Bonds and Notes 4.7%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| California, Statewide Communities Development Authority Revenue, Series A-1, 4.0%, 11/15/2006 (c) | 750,000 | 749,175 |
| Hoboken, NJ, Core City General Obligation, 6.5%, 4/1/2026 (c) | 1,900,000 | 2,282,983 |
| Illinois, State General Obligation, 4.95%, 6/1/2023 | 1,025,000 | 1,058,159 |
| Jicarilla, NM, Sales & Special Tax Revenue Apache Nation Revenue, 144A, 5.2%, 12/1/2013 | 670,000 | 693,329 |
| Trenton, NJ, Core City General Obligation, School District Revenue, 4.7%, 4/1/2013 (c) | 745,000 | 756,808 |
| Union County, NJ, Improvement Authority, Student Loan Revenue, 5.29%, 4/1/2018 (c) | 940,000 | 980,561 |
| Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013 (c) | 1,420,000 | 1,478,745 |
| Washington, State Economic Development Finance Authority Revenue, CSC Tacoma LLC Project, Series A, 3.8%, 10/1/2011 (c) | 550,000 | 537,455 |
| **Total Municipal Bonds and Notes** (Cost $8,020,615) | | **8,537,215** |

## Government National Mortgage Association 0.8%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Government National Mortgage Association: | | |
| 6.0% with various maturities from 1/15/2034 until 7/15/2034 | 925,944 | 955,555 |
| 7.0%, 9/20/2034 | 486,788 | 512,940 |
| **Total Government National Mortgage Association** (Cost $1,480,568) | | **1,468,495** |

## US Government Backed 13.1%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| US Treasury Bonds: | | |
| 6.0%, 2/15/2026 (f) | 1,262,000 | 1,554,922 |
| 7.5%, 11/15/2016 | 1,005,000 | 1,317,217 |
| US Treasury Notes: | | |
| 3.0%, 12/31/2006 (f) | 843,000 | 835,261 |
| 3.0%, 2/15/2008 | 700,000 | 688,652 |
| 3.0%, 2/15/2009 (f) | 1,299,000 | 1,268,657 |
| 3.375%, 2/15/2008 (f) | 7,323,000 | 7,269,791 |
| 3.625%, 7/15/2009 | 7,673,000 | 7,647,526 |
| 4.75%, 5/15/2014 (f) | 865,000 | 917,846 |
| 5.0%, 2/15/2011 | 940,000 | 998,713 |
| 5.0%, 8/15/2011 (f) | 365,000 | 389,139 |
| 5.75%, 8/15/2010 | 970,000 | 1,060,142 |
| **Total US Government Backed (Cost $23,829,268)** | | **23,947,866** |

| | Shares | Value ($) |
|---|---|---|

## Preferred Stocks 0.0%

| | Shares | Value ($) |
|---|---|---|
| TNP Enterprises, Inc., 14.5%, "D" (PIK) (Cost $54,621) | 45 | **50,962** |

## Other Investments 0.0%

| | Shares | Value ($) |
|---|---|---|
| Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $49,837) | 70,000 | **54,600** |

## Loan Participation 0.0%

| | Shares | Value ($) |
|---|---|---|
| Citigroup Global (Severstal), 8.625%, 2/24/2009 (Cost $20,318) | 20,000 | **20,574** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 8.3%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $15,184,889) | 15,184,889 | **15,184,889** |
| **Cash Equivalents 2.6%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $4,643,869) | 4,643,869 | **4,643,869** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $195,380,166) (a) | 108.1 | **197,573,437** |
| **Other Assets and Liabilities, Net** | (8.1) | **(14,807,685)** |
| **Net Assets** | 100.0 | **182,765,752** |

* *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of June 30, 2005.*

(a) *The cost for federal income tax purposes was $195,385,898. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $2,187,539. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,088,019 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $900,480.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Bond is insured by one of these companies:*

| Insurance Coverage | As a % of Total Investment Portfolio |
|---|---|
| Financial Guaranty Insurance Co. | 0.4 |
| Financial Security Assurance, Inc. | 1.6 |
| MBIA Corp. | 1.4 |

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

(f) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $14,901,572, which is 8.2% of net assets.*

(g) *Principal amount stated in US dollars unless otherwise noted.*

(h) *Mortgage dollar rolls included.*

*144A: Security exempt from registration under 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*PIK: Denotes that interest or dividend is paid in kind.*

*REIT: Real Estate Investment Trust*

**Currency Abbreviations**

| | | | |
|---|---|---|---|
| ARS | Argentine Peso | COP | Colombian Peso |
| EUR | Euro | GBP | British Pound |
| MXN | Mexican Peso | MYR | Malaysian Ringgit |
| UYU | Uruguay Peso | | |

*Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Government National Mortgage Association, Federal Home Loan Mortgage Corp. and the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.*

*Purchases and sales of investment securities (excluding US Treasury obligations, short-term investments and mortgage dollar roll transactions) for the six months ended June 30, 2005, aggregated $175,773,907 and $172,543,663, respectively. Purchases and sales of US Treasury obligations aggregated $88,854,269 and $91,047,890, respectively. Purchases and sales of mortgage dollar roll transactions aggregated $12,108,408 and $11,168,812, respectively.*

*The accompanying notes are an integral part of the financial statements.*

## Bond Portfolio

**Statement of Assets and Liabilities**
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $175,551,408), including $14,901,572 of securities loaned | $ | 177,744,679 |
| Investment in Scudder Daily Assets Fund Institutional (cost $15,184,889)* | | 15,184,889 |
| Investment in Scudder Cash Management QP Trust (cost $4,643,869) | | 4,643,869 |
| Total investment in securities, at value (cost $195,380,166) | | 197,573,437 |
| Cash | | 90,452 |
| Foreign currency, at value (cost $1,187) | | 1,136 |
| Receivable for investments sold | | 1,206,708 |
| Net receivable on closed forward currency exchange contracts | | 14,505 |
| Interest receivable | | 1,913,500 |
| Receivable for Portfolio shares sold | | 5,338 |
| Unrealized appreciation on forward foreign currency exchange contracts | | 841,007 |
| Other assets | | 2,900 |
| Total assets | | 201,648,983 |
| **Liabilities** | | |
| Payable for Portfolio shares redeemed | | 110,031 |
| Payable for investments purchased | | 1,769,829 |
| Payable for investments purchased — mortgage dollar rolls | | 1,426,885 |
| Payable upon return of securities loaned | | 15,184,889 |
| Deferred mortgage dollar roll income | | 364 |
| Unrealized depreciation on forward foreign currency exchange contracts | | 279,475 |
| Accrued management fee | | 68,833 |
| Accrued distribution Service fees (Class B) | | 28 |
| Other accrued expenses and payables | | 42,897 |
| Total liabilities | | 18,883,231 |
| **Net assets, at value** | **$** | **182,765,752** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 4,318,123 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 2,193,271 |
| Foreign currency related transactions | | 559,874 |
| Accumulated net realized gain (loss) | | (442,867) |
| Paid-in capital | | 176,137,351 |
| **Net assets, at value** | **$** | **182,765,752** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($182,609,235 ÷ 26,113,180 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **6.99** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($156,517 ÷ 22,405 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **6.99** |

* *Represents collateral on securities loaned.*

**Statement of Operation**
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Interest | $ | 4,006,176 |
| Mortgage dollar roll income | | 14,803 |
| Interest — Scudder Cash Management QP Trust | | 73,053 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 19,236 |
| Dividends | | 4,697 |
| Total Income | | 4,117,965 |
| Expenses: | | |
| Management fee | | 419,814 |
| Custodian and accounting fees | | 80,687 |
| Distribution service fees (Class B) | | 53 |
| Record keeping fees (Class B) | | 27 |
| Auditing | | 16,007 |
| Legal | | 6,460 |
| Trustees' fees and expenses | | 3,092 |
| Reports to shareholders | | 15,031 |
| Other | | 8,415 |
| Total expenses, before expense reductions | | 549,586 |
| Expense reductions | | (2,042) |
| Total expenses, after expense reductions | | 547,544 |
| **Net investment income** | | **3,570,421** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 343,939 |
| Foreign currency related transactions | | (683,025) |
| | | (339,086) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 263,741 |
| Foreign currency related transactions | | 1,314,050 |
| | | 1,577,791 |
| **Net gain (loss) on investment transactions** | | **1,238,705** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **4,809,126** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 3,570,421 | $ 7,264,637 |
| Net realized gain (loss) on investment transactions | (339,086) | 1,908,061 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 1,577,791 | (100,566) |
| Net increase (decrease) in net assets resulting from operations | 4,809,126 | 9,072,132 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (6,383,141) | (6,665,081) |
| Net realized gains: | | |
| Class A | (1,627,075) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 13,843,679 | 30,276,293 |
| Reinvestment of distributions | 8,010,216 | 6,665,081 |
| Cost of shares redeemed | (13,300,106) | (38,484,371) |
| Net increase (decrease) in net assets from Class A share transactions | 8,553,789 | (1,542,997) |
| **Class B*** | | |
| Proceeds from shares sold | 163,906 | — |
| Reinvestment of distributions | — | — |
| Cost of shares redeemed | (9,538) | — |
| Net increase (decrease) in net assets from Class B share transactions | 154,368 | — |
| **Increase (decrease) in net assets** | 5,507,067 | 864,054 |
| Net assets at beginning of period | 177,258,685 | 176,394,631 |
| Net assets at end of period (including undistributed net investment income of $4,318,123 and $7,130,843, respectively) | **$ 182,765,752** | **$ 177,258,685** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 24,873,210 | 25,068,858 |
| Shares sold | 1,956,560 | 4,299,192 |
| Shares issued to shareholders in reinvestment of distributions | 1,165,970 | 981,603 |
| Shares redeemed | (1,882,560) | (5,476,443) |
| Net increase (decrease) in Class A shares | 1,239,970 | (195,648) |
| Shares outstanding at end of period | **26,113,180** | **24,873,210** |
| **Class B*** | | |
| Shares outstanding at beginning of period | — | — |
| Shares sold | 23,779 | — |
| Shares issued to shareholders in reinvestment of distributions | — | — |
| Shares redeemed | (1,374) | — |
| Net increase (decrease) in Class B shares | 22,405 | — |
| Shares outstanding at end of period | **22,405** | **—** |

* *For the period May 3, 2005 (commencement of operations of Class B shares) to June 30, 2005.*

*The accompanying notes are an integral part of the financial statements.*

## Bond Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 7.13** | **$ 7.04** | **$ 6.98** | **$ 6.89** | **$ 6.78** | **$ 6.49** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[c] | .14 | .29 | .26 | .34 | .38 | .42 |
| Net realized and unrealized gain (loss) on investment transactions | .05 | .08 | .09 | .17 | .00 | .23 |
| **Total from investment operations** | .19 | .37 | .35 | .51 | .38 | .65 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.26) | (.28) | (.29) | (.42) | (.27) | (.36) |
| Net realized gain on investment transactions | (.07) | — | — | — | — | — |
| **Total distributions** | (.33) | (.28) | (.29) | (.42) | (.27) | (.36) |
| **Net asset value, end of period** | **$ 6.99** | **$ 7.13** | **$ 7.04** | **$ 6.98** | **$ 6.89** | **$ 6.78** |
| Total Return (%) | 2.60** | 5.38 | 5.06 | 7.66 | 5.75 | 10.56 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 183 | 177 | 176 | 165 | 182 | 102 |
| Ratio of expenses before expense reductions (%) | .62* | .60 | .58 | .55 | .58[d] | .58 |
| Ratio of expenses after expense reductions (%) | .62* | .60 | .58 | .55 | .57[d] | .58 |
| Ratio of net investment income (%) | 4.04* | 4.18 | 3.78 | 5.03 | 5.47 | 6.55 |
| Portfolio turnover rate (%) | 206[e]* | 223[e] | 242[e] | 262[e] | 169[e] | 288 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *As required, effective January 1, 2001, the Portfolio adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income by $.02, increase net realized and unrealized gains and losses per share by $.02, and decrease the ratio of net investment income to average net assets from 5.74% to 5.47%. Per share data and ratios for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

[c] *Based on average shares outstanding during the period.*

[d] *The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were .57% and .57%, respectively.*

[e] *The portfolio turnover rate including mortgage dollar roll transactions was 220%, 245%, 286%, 276% and 193% for the six months ended June 30, 2005 and for the years December 31, 2004, December 31, 2003, December 31, 2002 and December 31, 2001, respectively.*

* *Annualized* ** *Not annualized*

## Class B

| | 2005[a] |
|---|---|
| **Selected Per Share Data** | |
| **Net asset value, beginning of period** | **$ 6.88** |
| *Income (loss) from investment operations:* | |
| Net investment income[b] | .04 |
| Net realized and unrealized gain (loss) on investment transactions | .07 |
| **Total from investment operations** | .11 |
| **Net asset value, end of period** | **$ 6.99** |
| Total Return (%) | 1.60** |
| **Ratios to Average Net Assets and Supplemental Data** | |
| Net assets, end of period ($ millions) | .2 |
| Ratio of expenses (%) | 1.05* |
| Ratio of net investment income (%) | 3.36* |
| Portfolio turnover rate (%) | 206[c]* |

[a] *For the period May 3, 2005 (commencement of operations of Class B shares) to June 30, 2005 (Unaudited).*

[b] *Based on average shares outstanding during the period.*

[c] *The portfolio turnover rate including mortgage dollar roll transactions was 220% for the period ended June 30, 2005.*

* *Annualized* ** *Not annualized*

## A. Significant Accounting Policies

Scudder Variable Series I (the "Series") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Series consists of seven diversified portfolios: Money Market Portfolio, Bond Portfolio, Growth and Income Portfolio, Capital Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio (individually or collectively hereinafter referred to as a "Portfolio" or the "Portfolios"). These financial statements report on the Bond Portfolio. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

**Multiple Classes of Shares of Beneficial Interest.** The Portfolio offers two classes of shares (Class A shares and Class B shares). On May 3, 2005, the Portfolio commenced offering Class B shares. Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares except that each class bears certain expenses unique to that class (including the applicable 12b-1 distribution fee and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Series' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Series in the preparation of the financial statements for its Portfolios.

**Security Valuation.** Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the Series. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees. The Series may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

**Securities Lending.** The Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to an Exemptive Order issued by the SEC. The Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent. Either the Portfolio or the borrower may terminate the loan. The Portfolio is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments. During the six months ended June 30, 2005, the Portfolio loaned securities.

**Foreign Currency Translations.** The books and records of the Portfolio are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies, and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

**Repurchase Agreements.** The Portfolio may enter into repurchase agreements with certain banks and broker/dealers whereby the Portfolio, through its custodian or sub-custodian bank, receives delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodial bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the Portfolio has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Portfolio's claims on the collateral may be subject to legal proceedings.

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract (forward currency contract) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Portfolio may enter into forward currency contracts in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the Portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

The Portfolio entered into forward foreign currency exchange contracts during the six months ended June 30, 2005.

**Mortgage Dollar Rolls.** The Portfolio may enter into mortgage dollar rolls in which the Portfolio sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities on a fixed date. The Portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a lower price for the security upon its repurchase or, alternatively, a fee. Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before the Portfolio is able to repurchase them.

At the time the Portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

The Portfolio entered into mortgage dollar rolls during the six months ended June 30, 2005.

**When-Issued/Delayed Delivery Securities.** The Portfolio may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the Portfolio until payment takes place. At the time the Portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Loan Participations/Assignments.** The Portfolio invests in US dollar-denominated fixed and floating rate loans ("Loans") arranged through private negotiations between a foreign sovereign entity and one or more financial institutions ("Lenders"). The Portfolio invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in the Portfolio having a contractual relationship only with the Lender, not with the sovereign borrower. The Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Portfolio generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Portfolio will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Portfolio assumes the credit risk of both the borrower and the Lender that is selling the Participation.

**Taxes.** The Portfolio is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares. Accordingly, the Portfolio paid no federal income taxes and no federal income tax provision was required.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which the Portfolio invests, the Series will provide for foreign taxes, and where appropriate, deferred foreign taxes.

**Distribution of Income and Gains.** The Portfolio will declare and distribute dividends from the net investment income, if any, in April, although additional distributions may be made if necessary. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Portfolio if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in forward foreign currency exchange contracts, passive foreign investment companies, post October loss deferrals, non-taxable distributions and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

The tax character of current year distributions, if any, will be determined at the end of the current fiscal year.

**Contingencies.** In the normal course of business, the Portfolio may enter into contracts with service providers that contain general indemnification clauses. The Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolio that have not yet been made. However, based on experience, the Portfolio expects the risk of loss to be remote.

**Expenses.** The Portfolio is charged for those expenses which are directly attributable to it, such as management fees and custodian fees, while other expenses, such as reports to shareholders and legal fees, are allocated among the Portfolios.

**Other.** The Portfolio's investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

## B. Related Parties

Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolios in accordance with their investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Portfolio. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement.

Under the Series' Management Agreement with the Advisor, the Portfolios pay a monthly investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Portfolio | Annual Management Fee Rate |
|---|---|
| Bond Portfolio | 0.475% |

Deutsche Asset Management Investment Services Ltd. ("DeAMIS"), an affiliate of the Advisor, serves as subadvisor with respect to the investment and reinvestment of assets in the Portfolio. The Advisor compensates DeAMIS out of the management fee it receives from the Portfolio.

In addition, for the period January 1, 2005 through April 30, 2006 (Bond Portfolio Class B commenced operations on May 3, 2005), the Advisor agreed to waive a portion of its fee to the extent necessary to maintain the operating expenses of each class as follows:

| Portfolio | Operating Expense Ratio |
|---|---|
| Bond Portfolio Class A | 0.71% |
| Bond Portfolio Class B | 1.11% |

**Service Provider Fees.** Scudder Fund Accounting Corporation ("SFAC"), a subsidiary of the Advisor, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of the portfolio. In turn, SFAC has delegated certain fund accounting functions to a third-party service provider. For the six months ended June 30, 2005, SFAC received the following fee for its services:

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Bond Portfolio | 60,178 | 4,192 |

Scudder Investments Service Company, an affiliate of the Advisor, is the transfer and dividend-paying agent of the Series. These affiliated entities have in turn entered into various agreements with third-party service providers to provide these services.

Scudder Distributors, Inc. ("SDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, SDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, SDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. These fees are detailed in the Portfolio's Statement of Operations.

**Typesetting and Filing Service Fees.** Under an agreement with DeIM, the Advisor is compensated for providing typesetting and regulatory filing services to the Portfolio. For the six months ended June 30, 2005, the amount charged to the Portfolio by DeIM included in reports to shareholders were as follows:

| Portfolio | Amount ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Bond Portfolio | 4,602 | 3,055 |

**Trustees' Fees and Expenses.** The Portfolio pays each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings. Allocated Trustees' fees and expenses for the six months ended June 30, 2005 are detailed in the Portfolio's Statement of Operations.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the Series may invest in the Scudder Cash Management QP Trust (the "QP Trust"), and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

## C. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, delayed settlements and their prices more volatile than those of comparable securities in the United States of America.

## D. Expense Reductions

For the six months ended June 30, 2005, the Advisor agreed to reimburse the Portfolio, which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider as follows:

| Portfolio | Amount ($) |
|---|---|
| Bond Portfolio | 1,284 |

In addition, the Portfolio has entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Portfolio's expenses. During the six months ended June 30, 2005, the custodian fees were reduced as follows:

| Portfolio | Custody Credits ($) |
|---|---|
| Bond Portfolio | 758 |

## E. Forward Foreign Currency Exchange Contracts

As of June 30, 2005, the Portfolio had entered into the following forward foreign currency exchange contracts resulting in the following:

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Appreciation (US$) |
|---|---|---|---|---|---|
| AUD | 1,161,267 | USD | 897,195 | 7/28/2005 | 14,810 |
| USD | 456,488 | CLP | 269,442,213 | 7/28/2005 | 9,726 |
| EUR | 4,370,947 | USD | 5,658,650 | 7/28/2005 | 364,050 |
| EUR | 358,129 | USD | 455,149 | 7/28/2005 | 19,274 |
| EUR | 430,000 | USD | 563,687 | 7/28/2005 | 42,821 |
| EUR | 492,000 | USD | 636,648 | 7/28/2005 | 40,680 |
| EUR | 305,000 | USD | 395,323 | 7/28/2005 | 25,871 |
| GBP | 255,006 | USD | 456,522 | 7/28/2005 | 130 |
| GBP | 707,020 | USD | 1,330,921 | 7/28/2005 | 65,982 |
| GBP | 1,418,567 | USD | 2,692,341 | 7/28/2005 | 153,488 |
| GBP | 239,351 | USD | 450,922 | 7/28/2005 | 22,548 |
| JPY | 49,619,187 | USD | 454,451 | 7/28/2005 | 5,888 |
| JPY | 48,652,522 | USD | 448,189 | 7/28/2005 | 846 |
| KRW | 440,724,503 | USD | 439,626 | 7/28/2005 | 13,694 |
| KRW | 6,549,280 | USD | 6,512 | 7/28/2005 | 181 |
| USD | 30,000 | MXN | 331,710 | 7/28/2005 | 702 |
| NZD | 1,876,137 | USD | 1,354,582 | 7/28/2005 | 20,770 |
| SEK | 3,042,841 | USD | 404,678 | 7/28/2005 | 10,952 |
| USD | 80,000 | TRY | 111,608 | 7/28/2005 | 3,120 |
| USD | 78,500 | TRY | 108,369 | 7/28/2005 | 2,208 |
| TWD | 13,964,836 | USD | 451,790 | 7/28/2005 | 11,171 |
| TWD | 13,964,836 | USD | 447,233 | 7/28/2005 | 6,613 |
| USD | 50,000 | UAH | 280,000 | 7/28/2005 | 5,482 |
| **Total unrealized appreciation** | | | | | **841,007** |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| USD | 445,322 | AUD | 580,633 | 7/28/2005 | (4,130) |
| USD | 447,036 | CLP | 257,202,344 | 7/28/2005 | (2,001) |
| CLP | 257,202,344 | USD | 444,794 | 7/28/2005 | (241) |
| USD | 1,073,225 | EUR | 883,000 | 7/28/2005 | (3,632) |
| USD | 394,411 | EUR | 305,000 | 7/28/2005 | (24,959) |
| USD | 445,723 | GBP | 244,641 | 7/28/2005 | (4,609) |
| USD | 80,000 | IDR | 762,560,000 | 7/28/2005 | (1,869) |
| IDR | 762,560,000 | USD | 77,979 | 7/28/2005 | (152) |
| USD | 446,736 | JPY | 48,037,572 | 7/28/2005 | (5,607) |
| USD | 456,467 | JPY | 48,652,522 | 7/28/2005 | (8,329) |
| USD | 456,467 | JPY | 48,652,522 | 7/28/2005 | (7,646) |
| USD | 448,508 | KRW | 449,718,881 | 7/28/2005 | (13,807) |
| MXN | 29,362,450 | USD | 2,606,752 | 7/28/2005 | (110,975) |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| MXN | 2,309,008 | USD | 207,897 | 7/28/2005 | (5,820) |
| MXN | 3,024,000 | USD | 269,663 | 7/28/2005 | (10,232) |
| MXN | 785,925 | USD | 70,000 | 7/28/2005 | (2,744) |
| USD | 6,877 | NZD | 9,802 | 7/28/2005 | (76) |
| USD | 444,248 | NZD | 629,871 | 7/28/2005 | (3,635) |
| USD | 80,000 | PLN | 263,616 | 7/28/2005 | (1,203) |
| USD | 80,000 | PLN | 266,104 | 7/28/2005 | (459) |
| USD | 80,144 | RUB | 2,220,000 | 7/28/2005 | (2,742) |
| USD | 863,854 | SEK | 6,085,682 | 7/28/2005 | (25,728) |
| USD | 453,531 | SEK | 3,451,414 | 7/28/2005 | (3,351) |
| USD | 451,459 | SGD | 738,984 | 7/28/2005 | (12,664) |
| USD | 445,703 | SGD | 738,984 | 7/28/2005 | (6,908) |
| USD | 897,195 | TWD | 27,929,672 | 7/28/2005 | (15,956) |
| **Total unrealized depreciation** | | | | | **(279,475)** |

**Currency Abbreviations**

| | | | | | |
|---|---|---|---|---|---|
| AUD | Australian Dollar | KRW | Korean Won | TRY | New Turkish Lira |
| CLP | Chilean Peso | MXN | Mexican Peso | TWD | Taiwan Dollar |
| EUR | Euro | NZD | New Zealand Dollar | SGD | Singapore Dollar |
| GBP | Pound Sterling | PLN | New Zloty | UAH | Ukraine Hryvnia |
| IDR | Indonesian Rupiah | RUB | Russian Ruble | USD | United States Dollar |
| JPY | Japanese Yen | SEK | Swedish Krona | | |

## F. Ownership of the Portfolio

At the end of the period, the beneficial ownership in the Portfolio was as follows:

**Bond Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding shares of the Portfolio, each owning 34%, 26% and 11%, respectively. One Participating Insurance Company was owner of record of 85% of the total outstanding Class B shares of the Portfolio.

## G. Line of Credit

The Series and several other affiliated funds (the "Participants") share in a $1.1 billion revolving credit facility administered by J.P. Morgan Chase Bank for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

## H. Regulatory Matters and Litigation

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations ("inquiries") into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds' investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund's investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

### I. Other — Bond Portfolio

Deutsche Bank has signed an agreement with Aberdeen Asset Management ("Aberdeen") to sell parts of the United Kingdom and Philadelphia-based asset management business of Deutsche Asset Management. This proposed sale, which is subject to regulatory approval, is not yet approved by the Board or shareholders. In the event the sale is approved, it is expected that Aberdeen, or an affiliate thereof, would become subadvisor to the fund.

# Proxy Voting

A description of the series' policies and procedures for voting proxies for portfolio securities and information about how the series voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — scudder.com (type "proxy voting" in the search field) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the series' policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

## About the Fund's Advisor

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

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SCUDDER
INVESTMENTS

A Member of
Deutsche Asset Management

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

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# Scudder Variable Series I

Growth and Income Portfolio
Capital Growth Portfolio
Global Discovery Portfolio
International Portfolio
Health Sciences Portfolio

**Semiannual Report to Shareholders**
June 30, 2005

# Contents

**Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:**



**This report must be preceded or accompanied by a prospectus. To obtain a prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the product's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the investment product. Please read the prospectus carefully before you invest.**

*NOT FDIC/NCUA INSURED   NO BANK GUARANTEE   MAY LOSE VALUE   NOT A DEPOSIT   NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY*

*Investments in variable portfolios involve risk. Some portfolios have more risk than others. These include portfolios that allow exposure to or otherwise concentrate investments in certain sectors, geographic regions, security types, market capitalization or foreign securities (e.g., political or economic instability, which can be accentuated in Emerging Market countries). Please read both the contract and underlying prospectus for specific details regarding the product's investments and risk profile.*

## Growth and Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 995.20 | $ 994.00 |
| Expenses Paid per $1,000* | $ 2.72 | $ 4.45 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,022.07 | $ 1,020.33 |
| Expenses Paid per $1,000* | $ 2.76 | $ 4.51 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series I — Growth and Income Portfolio | .55% | .90% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Growth and Income Portfolio

For the six-month period ending June 30, 2005, SVS I Growth and Income Portfolio (Class A shares, unadjusted for contract charges) returned –0.48%, compared with a –0.81% return for the S&P 500 Index. Relative to the benchmark, the portfolio outperformed in the consumer discretionary, consumer staples, technology, utilities, telecommunications, materials and industrials sectors. The portfolio underperformed on a relative basis in the health care, energy and financials sectors.

Among consumer discretionary stocks, the portfolio benefited from a lack of exposure to eBay, which fell substantially during the period. Among the portfolio's holdings, Federated Department Stores, Inc. and Nordstrom, Inc. contributed positively to performance on strong sales. Consumer staples exhibited strong performance largely due to Safeway, Inc.; the food-and-drug store company reported its largest quarterly sales increase in three years. Google, Inc. was the clear winner among technology stocks, as the company reported sizable increases in earnings and revenue.

Financials was the worst-performing sector in the portfolio, as MBNA fell significantly in April after forecasting disappointing earnings for 2005. Unfortunately, the stock was sold from the portfolio by the time it rallied on news that Bank of America offered to acquire the company for $35 billion. Among health care stocks, Biomet (not held at the end of the reporting period) fell following news of an investigation into consulting and compensation arrangements with orthopedic surgeons.

Beginning April 1, 2005, the portfolio's investment strategy was revised so that it seeks to bring together the top US equity research accommodations of Deutsche Asset Management into a single investment portfolio. In managing the portfolio, each of the advisor's US equity analysts individually assigns qualitative ratings to stocks under their coverage using bottom-up analysis and looking for companies with string prospects for continued growth of capital and earnings. Using criteria specifically designed for the portfolio, investment parameters and risk management considerations, a quantitative model compiles these research analyst ratings into a proposed list of stocks for the portfolio and suggests appropriate weightings for each stock. As a result of this enhancement, Theresa Gusman and Greg Sivin assumed management of the portfolio, replacing Gregory Adams and Andrew Brudenell.

| | |
|---|---|
| Theresa Gusman | Gregory Y. Sivin, CFA |
| *Lead Portfolio Manager* | *Portfolio Manager* |

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

Portfolio returns during the period reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

### Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please read this portfolio's prospectus for specific information regarding its investments and risk profile.

*The Standard & Poor's 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Growth and Income Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 97% |
| Exchange Traded Fund | 1% | — |
| Cash Equivalents | — | 3% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 20% | 18% |
| Information Technology | 15% | 18% |
| Health Care | 12% | 12% |
| Industrials | 12% | 14% |
| Consumer Discretionary | 11% | 11% |
| Consumer Staples | 10% | 9% |
| Energy | 9% | 8% |
| Utilities | 4% | 3% |
| Telecommunication Services | 4% | 3% |
| Materials | 3% | 4% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 6. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Growth and Income Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 99.1%** | | |
| **Consumer Discretionary 11.0%** | | |
| **Hotels Restaurants & Leisure 0.5%** | | |
| McDonald's Corp. | 56,190 | **1,559,272** |
| **Household Durables 0.4%** | | |
| Harman International Industries, Inc. (f) | 17,310 | **1,408,342** |
| **Media 3.6%** | | |
| Clear Channel Communications, Inc. | 52,130 | 1,612,381 |
| Time Warner, Inc.* | 325,900 | 5,445,789 |
| Viacom, Inc. "B" | 127,110 | 4,070,062 |
| | | **11,128,232** |
| **Multiline Retail 3.7%** | | |
| Federated Department Stores, Inc. | 77,020 | 5,644,026 |
| J.C. Penney Co., Inc. | 57,180 | 3,006,524 |
| Nordstrom, Inc. | 44,100 | 2,997,477 |
| | | **11,648,027** |
| **Specialty Retail 2.8%** | | |
| Advance Auto Parts, Inc.* | 50,100 | 3,233,955 |
| Sherwin-Williams Co. | 36,270 | 1,707,954 |
| Staples, Inc. | 86,805 | 1,850,683 |
| Urban Outfitters, Inc.* | 33,180 | 1,880,974 |
| | | **8,673,566** |
| **Consumer Staples 10.1%** | | |
| **Beverages 2.7%** | | |
| Brown-Forman Corp. "B" | 13,790 | 833,743 |
| Coca-Cola Co. | 95,580 | 3,990,465 |
| PepsiCo, Inc. | 69,160 | 3,729,799 |
| | | **8,554,007** |
| **Food & Staples Retailing 3.3%** | | |
| Costco Wholesale Corp. | 136,600 | 6,122,412 |
| Safeway, Inc.* | 183,900 | 4,154,301 |
| | | **10,276,713** |
| **Food Products 1.4%** | | |
| General Mills, Inc. | 90,790 | **4,248,064** |
| **Household Products 2.7%** | | |
| Procter & Gamble Co. | 157,670 | **8,317,093** |
| **Energy 9.0%** | | |
| **Oil, Gas & Consumable Fuels** | | |
| Amerada Hess Corp. | 56,440 | 6,011,425 |
| Burlington Resources, Inc. | 29,500 | 1,629,580 |
| ChevronTexaco Corp. | 100,630 | 5,627,230 |
| ConocoPhillips | 31,680 | 1,821,283 |
| Devon Energy Corp. | 35,280 | 1,787,990 |
| ExxonMobil Corp. | 192,454 | 11,060,331 |
| | | **27,937,839** |
| **Financials 20.3%** | | |
| **Banks 6.5%** | | |
| Bank of America Corp. | 301,020 | 13,729,522 |
| Commerce Bancorp., Inc. (d) | 55,500 | 1,682,205 |
| Wachovia Corp. | 96,000 | 4,761,600 |
| | | **20,173,327** |
| **Capital Markets 5.1%** | | |
| Lehman Brothers Holdings, Inc. | 88,150 | 8,751,532 |
| The Goldman Sachs Group, Inc. | 70,900 | 7,233,218 |
| | | **15,984,750** |
| **Diversified Financial Services 2.8%** | | |
| CIT Group, Inc. | 67,140 | 2,885,006 |
| Citigroup, Inc. | 47,670 | 2,203,784 |
| Countrywide Financial Corp. | 40,600 | 1,567,566 |
| JPMorgan Chase & Co. | 58,150 | 2,053,858 |
| | | **8,710,214** |
| **Insurance 5.9%** | | |
| AFLAC, Inc. | 99,700 | 4,315,016 |
| Allstate Corp. | 169,500 | 10,127,625 |
| Hartford Financial Services Group, Inc. | 37,000 | 2,766,860 |
| Prudential Financial, Inc. | 18,210 | 1,195,669 |
| | | **18,405,170** |
| **Health Care 12.1%** | | |
| **Biotechnology 1.5%** | | |
| Amgen, Inc.* | 28,260 | 1,708,600 |
| Genzyme Corp.* | 7,150 | 429,643 |
| Invitrogen Corp.* | 30,010 | 2,499,533 |
| | | **4,637,776** |
| **Health Care Equipment & Supplies 1.3%** | | |
| Fisher Scientific International, Inc.* | 25,370 | 1,646,513 |
| Medtronic, Inc. | 50,600 | 2,620,574 |
| | | **4,267,087** |
| **Health Care Providers & Services 3.7%** | | |
| Caremark Rx, Inc.* | 156,980 | 6,988,750 |
| UnitedHealth Group, Inc. | 43,180 | 2,251,405 |
| WellPoint, Inc.* | 32,880 | 2,289,763 |
| | | **11,529,918** |
| **Pharmaceuticals 5.6%** | | |
| Allergan, Inc. | 37,400 | 3,187,976 |
| Johnson & Johnson | 186,630 | 12,130,950 |
| Watson Pharmaceuticals, Inc.* | 72,600 | 2,146,056 |
| | | **17,464,982** |
| **Industrials 11.6%** | | |
| **Aerospace & Defense 4.3%** | | |
| Boeing Co. | 85,600 | 5,649,600 |
| Goodrich Corp. | 47,170 | 1,932,083 |
| Lockheed Martin Corp. | 73,340 | 4,757,566 |
| United Technologies Corp. | 17,820 | 915,057 |
| | | **13,254,306** |
| **Commercial Services & Supplies 0.9%** | | |
| Waste Management, Inc. | 101,870 | **2,886,996** |
| **Electrical Equipment 1.0%** | | |
| Emerson Electric Co. | 47,500 | **2,974,925** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Industrial Conglomerates 4.4%** | | |
| General Electric Co. | 156,940 | 5,437,971 |
| Tyco International Ltd. | 285,700 | 8,342,440 |
| | | **13,780,411** |
| **Machinery 1.0%** | | |
| Parker-Hannifin Corp. | 51,310 | **3,181,733** |
| **Information Technology 15.2%** | | |
| **Communications Equipment 2.5%** | | |
| Cisco Systems, Inc.* | 55,200 | 1,054,872 |
| Motorola, Inc. | 359,800 | 6,569,948 |
| | | **7,624,820** |
| **Computers & Peripherals 3.6%** | | |
| Dell, Inc.* | 43,070 | 1,701,696 |
| EMC Corp.* | 330,570 | 4,532,114 |
| International Business Machines Corp. | 66,780 | 4,955,076 |
| | | **11,188,886** |
| **Internet Software & Services 0.6%** | | |
| Google, Inc. "A"* | 6,740 | **1,982,571** |
| **IT Consulting & Services 1.9%** | | |
| Accenture Ltd. "A"* | 105,200 | 2,384,884 |
| Affiliated Computer Services, Inc. "A"* | 70,360 | 3,595,396 |
| | | **5,980,280** |
| **Semiconductors & Semiconductor Equipment 1.2%** | | |
| Applied Materials, Inc. | 106,880 | 1,729,318 |
| Broadcom Corp. "A"* | 57,490 | 2,041,470 |
| | | **3,770,788** |
| **Software 5.4%** | | |
| Cognos, Inc.* | 48,700 | 1,662,618 |
| Microsoft Corp. | 100,140 | 2,487,478 |
| Oracle Corp.* | 842,390 | 11,119,548 |
| Symantec Corp.* | 72,150 | 1,568,541 |
| | | **16,838,185** |
| **Materials 2.8%** | | |
| **Chemicals 1.9%** | | |
| Dow Chemical Co. | 64,730 | 2,882,427 |
| PPG Industries, Inc. | 49,130 | 3,083,399 |
| | | **5,965,826** |
| **Paper & Forest Products 0.9%** | | |
| Georgia-Pacific Corp. | 83,860 | **2,666,748** |

| | Shares | Value ($) |
|---|---|---|
| **Telecommunication Services 3.5%** | | |
| **Diversified Telecommunication Services** | | |
| ALLTEL Corp. | 55,080 | 3,430,382 |
| Sprint Corp. | 235,580 | 5,910,702 |
| Verizon Communications, Inc. | 46,052 | 1,591,097 |
| | | **10,932,181** |
| **Utilities 3.5%** | | |
| **Electric Utilities 2.7%** | | |
| Edison International | 46,880 | 1,900,984 |
| Exelon Corp. | 49,020 | 2,516,196 |
| PG&E Corp. | 104,070 | 3,906,789 |
| | | **8,323,969** |
| **Independent Power Producers & Energy Traders 0.8%** | | |
| Constellation Energy Group | 45,590 | **2,630,087** |
| **Total Common Stocks** (Cost $281,802,672) | | **308,907,091** |
| **Exchange Traded Funds 0.5%** | | |
| SPDR Trust Series 1 (d) (Cost $1,589,247) | 13,100 | **1,561,258** |
| **Securities Lending Collateral 0.9%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $2,846,445) | 2,846,445 | **2,846,445** |
| **Cash Equivalents 0.4%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $1,372,025) | 1,372,025 | **1,372,025** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $287,610,389) (a) | 100.9 | **314,686,819** |
| **Other Assets and Liabilities, Net** | (0.9) | **(2,845,031)** |
| **Net Assets** | 100.0 | **311,841,788** |

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $288,593,621. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $26,093,198. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $30,842,919 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,749,721.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $2,756,775, which is 0.9% of net assets.*

(e) *Represents collateral held in connection with securities lending.*

(f) *At June 30, 2005, this security has been segregated, in part or whole, to cover written options.*

*The accompanying notes are an integral part of the financial statements.*

*At June 30, 2005, open written contracts were as follows:*

| Covered Written Options | Contracts | Expiration Date | Strike Price ($) | Value ($) |
|---|---|---|---|---|
| **Call Options** | | | | |
| Nordstrom, Inc. | 100 | 8/20/2005 | 75 | (8,000) |
| **Total outstanding written options (Premiums received $8,706)** | | | | **(8,000)** |

*For the six months ended June 30, 2005, transactions for written options were as follows for the Growth and Income Portfolio:*

| | Contract Amounts | Premium ($) |
|---|---|---|
| Beginning of period | 119 | 9,684 |
| Written | 387 | 27,816 |
| Closed | (251) | (8,698) |
| Expired | (155) | (20,096) |
| End of period | **100** | **8,706** |

*Purchases and sales of investment securities (excluding short-term investments) for the six months ended June 30, 2005, aggregated $254,268,984 and $158,787,338, respectively.*

*At December 31, 2004, the Growth and Income Portfolio had a net tax basis capital loss carryforward of approximately $35,930,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 ($6,650,000), December 31, 2010 ($22,250,000) and December 31, 2011 ($7,030,000), the respective expiration dates, whichever occurs first.*

*The accompanying notes are an integral part of the financial statements.*

## Growth and Income Portfolio

### Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $283,391,919), including $2,756,775 of securities loaned | $ | 310,468,349 |
| Investment in Scudder Daily Assets Fund Institutional (cost $2,846,445)* | | 2,846,445 |
| Investment in Scudder Cash Management QP Trust (cost $1,372,025) | | 1,372,025 |
| Total investments in securities, at value (cost $287,610,389) | | 314,686,819 |
| Receivable for Portfolio shares sold | | 3,051 |
| Dividends receivable | | 344,185 |
| Interest receivable | | 12,867 |
| Foreign taxes recoverable | | 13,302 |
| Other assets | | 4,794 |
| Total assets | | 315,065,018 |

| Liabilities | | |
|---|---|---|
| Payable upon return of securities loaned | | 2,846,445 |
| Payable for Portfolio shares redeemed | | 177,638 |
| Written options, at value (premiums received $8,706) | | 8,000 |
| Accrued management fee | | 120,679 |
| Accrued distribution service fees (Class B) | | 8,920 |
| Other accrued expenses and payables | | 61,548 |
| Total liabilities | | 3,223,230 |
| **Net assets, at value** | **$** | **311,841,788** |

| Net Assets | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 1,097,678 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 27,076,430 |
| Written options | | 706 |
| Accumulated net realized gain (loss) | | (26,110,022) |
| Paid-in capital | | 309,776,996 |
| **Net assets, at value** | **$** | **311,841,788** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($267,430,707 ÷ 29,317,353 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **9.12** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($44,411,081 ÷ 4,880,839 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized). | **$** | **9.10** |

* *Represents collateral on securities loaned.*

### Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 1,906,354 |
| Interest — Scudder Cash Management QP Trust | | 91,264 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 881 |
| Total Income | | 1,998,499 |
| Expenses: | | |
| Management fee | | 558,604 |
| Custodian and accounting fees | | 52,185 |
| Distribution service fees (Class B) | | 45,603 |
| Record keeping fees (Class B) | | 17,625 |
| Auditing | | 18,249 |
| Legal | | 9,075 |
| Trustees' fees and expenses | | 4,296 |
| Reports to shareholders | | 15,335 |
| Interest expense | | 264 |
| Other | | 8,151 |
| Total expenses, before expense reductions | | 729,387 |
| Expense reductions | | (13,966) |
| Total expenses, after expense reductions | | 715,421 |
| **Net investment income (loss)** | | **1,283,078** |

| Realized and Unrealized Gain (Loss) on Investment Transactions | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 11,658,739 |
| Written options | | 28,430 |
| | | 11,687,169 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (8,977,841) |
| Written options | | (8,380) |
| | | (8,986,221) |
| **Net gain (loss) on investment transactions** | | **2,700,948** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **3,984,026** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 1,283,078 | $ 2,438,934 |
| Net realized gain (loss) on investment transactions | 11,687,169 | 6,835,797 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (8,986,221) | 8,951,633 |
| Net increase (decrease) in net assets resulting from operations | 3,984,026 | 18,226,364 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (2,208,887) | (1,239,211) |
| Class B | (336,934) | (112,919) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 11,994,892 | 22,740,822 |
| Net assets acquired in tax free reorganization | 99,119,857 | — |
| Reinvestment of distributions | 2,208,887 | 1,239,211 |
| Cost of shares redeemed | (19,090,831) | (27,224,855) |
| Net increase (decrease) in net assets from Class A share transactions | 94,232,805 | (3,244,822) |
| **Class B** | | |
| Proceeds from shares sold | 13,990,539 | 16,908,894 |
| Net assets acquired in tax free reorganization | 10,376,860 | — |
| Reinvestment of distributions | 336,934 | 112,919 |
| Cost of shares redeemed | (13,277,971) | (4,470,402) |
| Net increase (decrease) in net assets from Class B share transactions | 11,426,362 | 12,551,411 |
| **Increase (decrease) in net assets** | 107,097,372 | 26,180,823 |
| Net assets at beginning of period | 204,744,416 | 178,563,593 |
| Net assets at end of period (including undistributed net investment income of $1,097,678 and $2,360,421, respectively) | **$ 311,841,788** | **$ 204,744,416** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 18,483,989 | 18,896,518 |
| Shares sold | 1,321,060 | 2,601,316 |
| Shares issued in tax free reorganization | 11,366,540 | — |
| Shares issued to shareholders in reinvestment of distributions | 253,022 | 146,478 |
| Shares redeemed | (2,107,258) | (3,160,323) |
| Net increase (decrease) in Class A shares | 10,833,364 | (412,529) |
| Shares outstanding at end of period | **29,317,353** | **18,483,989** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,576,021 | 2,114,110 |
| Shares sold | 1,588,946 | 1,958,270 |
| Shares issued in tax free reorganization | 1,191,379 | — |
| Shares issued to shareholders in reinvestment of distributions | 38,683 | 13,379 |
| Shares redeemed | (1,514,190) | (509,738) |
| Net increase (decrease) in Class B shares | 1,304,818 | 1,461,911 |
| Shares outstanding at end of period | **4,880,839** | **3,576,021** |

*The accompanying notes are an integral part of the financial statements.*

## Growth and Income Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.29** | **$ 8.50** | **$ 6.77** | **$ 8.90** | **$ 10.38** | **$ 10.96** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .05 | .12 | .07 | .07 | .09 | .11 |
| Net realized and unrealized gain (loss) on investment transactions | (.10) | .74 | 1.74 | (2.12) | (1.23) | (.33) |
| **Total from investment operations** | (.05) | .86 | 1.81 | (2.05) | (1.14) | (.22) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.12) | (.07) | (.08) | (.08) | (.12) | (.15) |
| Net realized gains on investment transactions | — | — | — | — | (.22) | (.21) |
| **Total distributions** | (.12) | (.07) | (.08) | (.08) | (.34) | (.36) |
| **Net asset value, end of period** | **$ 9.12** | **$ 9.29** | **$ 8.50** | **$ 6.77** | **$ 8.90** | **$ 10.38** |
| Total Return (%) | (.48)[d]** | 10.16 | 26.74 | (23.13) | (11.30) | (2.10) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 267 | 172 | 161 | 135 | 185 | 185 |
| Ratio of expenses before expense reductions (%) | .56* | .56 | .59 | .57 | .57[c] | .56 |
| Ratio of expenses after expense reductions (%) | .55* | .56 | .59 | .57 | .56[c] | .56 |
| Ratio of net investment income (loss) (%) | 1.15* | 1.37 | .91 | .92 | .94 | 1.06 |
| Portfolio turnover rate (%) | 69** | 33 | 37 | 66 | 67 | 65 |

### Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.25** | **$ 8.47** | **$ 6.75** | **$ 8.87** | **$ 10.35** | **$ 10.93** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .04 | .09 | .05 | .05 | .06 | .09 |
| Net realized and unrealized gain (loss) on investment transactions | (.10) | .73 | 1.73 | (2.12) | (1.23) | (.33) |
| **Total from investment operations** | (.06) | .82 | 1.78 | (2.07) | (1.17) | (.24) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.09) | (.04) | (.06) | (.05) | (.09) | (.13) |
| Net realized gains on investment transactions | — | — | — | — | (.22) | (.21) |
| **Total distributions** | (.09) | (.04) | (.06) | (.05) | (.31) | (.34) |
| **Net asset value, end of period** | **$ 9.10** | **$ 9.25** | **$ 8.47** | **$ 6.75** | **$ 8.87** | **$ 10.35** |
| Total Return (%) | (.60)[d]** | 9.78 | 26.55 | (23.40) | (11.56) | (2.33) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 44 | 33 | 18 | 7 | 10 | 13 |
| Ratio of expenses before expense reductions (%) | .91* | .89 | .85 | .82 | .82[c] | .81 |
| Ratio of expenses after expense reductions (%) | .90* | .89 | .85 | .82 | .81[c] | .81 |
| Ratio of net investment income (loss) (%) | .80* | 1.04 | .65 | .67 | .69 | .81 |
| Portfolio turnover rate (%) | 69** | 33 | 37 | 66 | 67 | 65 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *Based on average shares outstanding during the period.*

[c] *The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were .56% and .56% and .81% and .81% for Class A and Class B, respectively.*

[d] *Total return would have been less had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Capital Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,014.10 | $ 1,012.20 |
| Expenses Paid per $1,000* | $ 2.50 | $ 4.39 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,022.32 | $ 1,020.43 |
| Expenses Paid per $1,000* | $ 2.51 | $ 4.41 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series I — Capital Growth Portfolio | .50% | .88% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Capital Growth Portfolio

At June 30, 2005, the US stock market (as measured by the S&P 500 Index) was close to its level at the beginning of the calendar year, after a downward move in the early months was followed by a modest rally with considerable volatility in May and June. Capital Growth Portfolio posted a return of 1.41% (Class A shares, unadjusted for contract charges) for the six months ended June 30, 2005, outperforming its benchmark, the Russell 1000 Growth Index, which had a return of –1.72%.

Both sector allocation and stock selection contributed to the portfolio's outperformance. Most significant was the portfolio's strategic overweight in the energy sector. Our investment thesis, within the energy sector, remained focused on the long-term growth opportunities created by chronic underinvestment in the exploration for and production of new oil reserves. As rising oil prices have attracted investor interest to the sector, we have taken profits in some holdings; however, we continue to feel comfortable with our overweight in the sector, as evidence of increased exploration and production spending continues to mount. Holdings that contributed to performance for the period include North American natural gas leader EOG Resources, Inc. and ConocoPhillips.

Performance benefited also from stock selection within the health care sector, notably the portfolio's emphasis on biotechnology holdings with innovative new products that have significant growth potential. Biotech industry leaders Genentech, Inc. and Gilead Sciences, Inc. were holdings that were particularly strong.

Stock selection within the consumer discretionary sector detracted from the portfolio's returns, as Harley-Davidson, Inc.'s stock dropped after the company reduced production and earnings estimates. Other negatives were stock selection within the industrials sector, particularly our FedEx Corp. holding, and stock selection within technology.

As we enter the second half of 2005, we remain confident that the portfolio is appropriately positioned for continued growth. We remain committed to diversification among sectors and companies. Most important, we have great confidence in our long-range strategy of investing in companies that successfully combine management skill and financial soundness with growth and innovation. We are continually looking for and finding companies with these attributes.

Julie M. Van Cleave, CFA
*Lead Portfolio Manager*
Jack A. Zehner
Thomas J. Schmid, CFA
*Portfolio Managers*

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific information regarding its investments and risk profile.

*The Standard & Poor's 500 (S&P 500) index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.*

*Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Capital Growth Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 98% | 97% |
| Cash Equivalents | 2% | 2% |
| Exchange Traded Fund | — | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Information Technology | 24% | 23% |
| Health Care | 22% | 21% |
| Consumer Discretionary | 15% | 16% |
| Energy | 13% | 10% |
| Consumer Staples | 10% | 11% |
| Industrials | 8% | 8% |
| Financials | 7% | 9% |
| Materials | 1% | 1% |
| Telecommunication Services | — | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 15. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.4%** | | |
| **Consumer Discretionary 14.4%** | | |
| **Automobiles 1.3%** | | |
| Harley-Davidson, Inc. | 282,100 | **13,992,160** |
| **Hotels Restaurants & Leisure 2.3%** | | |
| International Game Technology | 238,700 | 6,719,405 |
| Starbucks Corp.* | 104,800 | 5,413,968 |
| YUM! Brands, Inc. | 254,800 | 13,269,984 |
| | | **25,403,357** |
| **Household Durables 0.5%** | | |
| Fortune Brands, Inc. | 67,400 | **5,985,120** |
| **Internet & Catalog Retail 0.8%** | | |
| eBay, Inc.* (c) | 261,700 | **8,638,717** |
| **Media 3.8%** | | |
| Comcast Corp. "A"* | 296,300 | 8,874,185 |
| McGraw-Hill Companies, Inc. | 308,200 | 13,637,850 |
| Omnicom Group, Inc. | 175,140 | 13,986,680 |
| Viacom, Inc. "B" | 148,330 | 4,749,527 |
| | | **41,248,242** |
| **Multiline Retail 3.1%** | | |
| Kohl's Corp.* | 156,200 | 8,733,142 |
| Target Corp. | 450,900 | 24,533,469 |
| | | **33,266,611** |
| **Specialty Retail 2.6%** | | |
| Bed Bath & Beyond, Inc.* | 131,500 | 5,494,070 |
| Home Depot, Inc. | 73,375 | 2,854,288 |
| Lowe's Companies, Inc. | 158,200 | 9,210,404 |
| Staples, Inc. | 482,200 | 10,280,504 |
| | | **27,839,266** |
| **Consumer Staples 10.2%** | | |
| **Beverages 2.4%** | | |
| PepsiCo, Inc. | 473,850 | **25,554,731** |
| **Food & Staples Retailing 2.5%** | | |
| Wal-Mart Stores, Inc. | 265,490 | 12,796,618 |
| Walgreen Co. | 312,200 | 14,358,078 |
| | | **27,154,696** |
| **Food Products 2.0%** | | |
| Dean Foods Co.* | 111,100 | 3,915,164 |
| Hershey Foods Corp. | 141,600 | 8,793,360 |
| Kellogg Co. | 190,500 | 8,465,820 |
| TreeHouse Foods, Inc.* | 22,220 | 633,492 |
| | | **21,807,836** |
| **Household Products 3.3%** | | |
| Colgate-Palmolive Co. | 167,840 | 8,376,894 |
| Kimberly-Clark Corp. | 81,400 | 5,094,826 |
| Procter & Gamble Co. | 432,600 | 22,819,650 |
| | | **36,291,370** |
| **Energy 12.4%** | | |
| **Energy Equipment & Services 4.6%** | | |
| Baker Hughes, Inc. | 287,000 | 14,682,920 |
| Nabors Industries Ltd.* | 161,900 | 9,814,378 |
| Schlumberger Ltd. | 184,800 | 14,033,712 |
| Transocean, Inc.* | 211,900 | 11,436,243 |
| | | **49,967,253** |
| **Oil, Gas & Consumable Fuels 7.8%** | | |
| ConocoPhillips | 366,200 | 21,052,838 |
| Devon Energy Corp. | 368,700 | 18,685,716 |
| EOG Resources, Inc. | 485,600 | 27,582,080 |
| Valero Energy Corp. | 118,000 | 9,334,980 |
| XTO Energy, Inc. | 230,466 | 7,833,539 |
| | | **84,489,153** |
| **Financials 7.0%** | | |
| **Banks 1.3%** | | |
| Bank of America Corp. | 303,700 | **13,851,757** |
| **Capital Markets 1.9%** | | |
| Lehman Brothers Holdings, Inc. | 109,600 | 10,881,088 |
| The Goldman Sachs Group, Inc. | 101,000 | 10,304,020 |
| | | **21,185,108** |
| **Consumer Finance 1.0%** | | |
| American Express Co. | 199,500 | **10,619,385** |
| **Diversified Financial Services 1.6%** | | |
| Citigroup, Inc. | 373,799 | **17,280,728** |
| **Insurance 1.2%** | | |
| AFLAC, Inc. | 303,900 | **13,152,792** |
| **Health Care 21.4%** | | |
| **Biotechnology 5.4%** | | |
| Amgen, Inc.* | 92,150 | 5,571,389 |
| Genentech, Inc.* | 443,500 | 35,604,180 |
| Gilead Sciences, Inc.* | 391,500 | 17,222,085 |
| | | **58,397,654** |
| **Health Care Equipment & Supplies 5.4%** | | |
| Baxter International, Inc. | 263,500 | 9,775,850 |
| Boston Scientific Corp.* | 287,100 | 7,751,700 |
| C.R. Bard, Inc. | 114,000 | 7,582,140 |
| Medtronic, Inc. | 287,100 | 14,868,909 |
| Zimmer Holdings, Inc.* (c) | 237,040 | 18,055,337 |
| | | **58,033,936** |
| **Health Care Providers & Services 2.9%** | | |
| UnitedHealth Group, Inc. | 600,000 | **31,284,000** |
| **Pharmaceuticals 7.7%** | | |
| Abbott Laboratories | 417,600 | 20,466,576 |
| Eli Lilly & Co. | 136,100 | 7,582,131 |
| Johnson & Johnson | 599,386 | 38,960,090 |
| Pfizer, Inc. | 602,677 | 16,621,831 |
| | | **83,630,628** |
| **Industrials 8.2%** | | |
| **Aerospace & Defense 2.1%** | | |
| United Technologies Corp. | 443,000 | **22,748,050** |
| **Air Freight & Logistics 1.1%** | | |
| FedEx Corp.(c) | 143,000 | **11,584,430** |
| **Industrial Conglomerates 4.3%** | | |
| 3M Co. | 112,000 | 8,097,600 |
| General Electric Co. | 1,094,390 | 37,920,614 |
| | | **46,018,214** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Machinery 0.7%** | | |
| Caterpillar, Inc. | 84,400 | **8,044,164** |
| **Information Technology 23.7%** | | |
| **Communications Equipment 3.2%** | | |
| Cisco Systems, Inc.* | 980,220 | 18,732,004 |
| QUALCOMM, Inc. | 465,600 | 15,369,456 |
| | | **34,101,460** |
| **Computers & Peripherals 4.7%** | | |
| Apple Computer, Inc.* | 131,700 | 4,847,877 |
| Dell, Inc.* | 355,150 | 14,031,976 |
| EMC Corp.* | 1,324,500 | 18,158,895 |
| International Business Machines Corp. | 187,100 | 13,882,820 |
| | | **50,921,568** |
| **Internet Software & Services 0.7%** | | |
| Yahoo!, Inc.* | 221,150 | **7,662,848** |
| **IT Consulting & Services 2.6%** | | |
| Accenture Ltd. "A"* | 381,700 | 8,653,139 |
| Fiserv, Inc.* | 354,300 | 15,217,185 |
| Paychex, Inc. | 146,600 | 4,770,364 |
| | | **28,640,688** |
| **Semiconductors & Semiconductor Equipment 5.4%** | | |
| Broadcom Corp. "A"* | 253,500 | 9,001,785 |
| Intel Corp. | 931,390 | 24,272,023 |
| Linear Technology Corp. | 314,330 | 11,532,768 |
| Texas Instruments, Inc. | 504,650 | 14,165,526 |
| | | **58,972,102** |
| **Software 7.1%** | | |
| Adobe Systems, Inc. | 255,600 | 7,315,272 |
| Electronic Arts, Inc.* (c) | 218,600 | 12,374,946 |
| Intuit, Inc.* | 111,200 | 5,016,232 |
| Microsoft Corp. | 1,600,680 | 39,760,891 |
| Oracle Corp.* | 664,000 | 8,764,800 |
| Symantec Corp.* | 157,100 | 3,415,354 |
| | | **76,647,495** |
| **Materials 0.8%** | | |
| **Chemicals** | | |
| Ecolab, Inc. | 267,100 | **8,643,355** |
| **Telecommunication Services 0.3%** | | |
| **Diversified Telecommunication Services** | | |
| Verizon Communications, Inc. | 91,600 | **3,164,780** |
| **Total Common Stocks** (Cost $842,347,026) | | **1,066,223,654** |

| **Securities Lending Collateral 2.7%** | | |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $29,432,680) | 29,432,680 | **29,432,680** |

| **Cash Equivalents 1.7%** | | |
|---|---|---|
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $18,463,364) | 18,463,364 | **18,463,364** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $890,243,070) (a) | 102.8 | **1,114,119,698** |
| **Other Assets and Liabilities, Net** | (2.8) | **(30,560,502)** |
| **Net Assets** | 100.0 | **1,083,559,196** |

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $890,995,233. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $223,124,465. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $247,759,940 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $24,635,475.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $28,787,336, which is 2.7% of total net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*Purchases and sales of investment securities (excluding short-term investments) for the six months ended June 30, 2005, aggregated $59,323,391 and $101,125,046, respectively.*

*At December 31, 2004, the Capital Growth Portfolio had a net tax basis capital loss carryforward of approximately $232,875,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 ($18,038,000), December 31, 2010 ($121,030,000), December 31, 2011 ($65,191,000) and December 31, 2012 ($28,616,000), the respective expiration dates, whichever occurs first.*

*In addition, from November 1, 2004 through December 31, 2004, the Portfolio incurred approximately $18,631,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2005.*

*The accompanying notes are an integral part of the financial statements.*

## Capital Growth Portfolio

### Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $842,347,026), including $28,787,336 of securities loaned | $ | 1,066,223,654 |
| Investment in Scudder Daily Assets Fund Institutional (cost $29,432,680)* | | 29,432,680 |
| Investment in Scudder Cash Management QP Trust (cost $18,463,364) | | 18,463,364 |
| Total investments in securities, at value (cost $890,243,070) | | 1,114,119,698 |
| Dividends receivable | | 465,063 |
| Interest receivable | | 48,869 |
| Receivable for Portfolio shares sold | | 4,532 |
| Other assets | | 20,491 |
| Total assets | | 1,114,658,653 |

| Liabilities | | |
|---|---|---|
| Payable upon return of securities loaned | | 29,432,680 |
| Payable for Portfolio shares redeemed | | 1,190,595 |
| Accrued management fee | | 398,249 |
| Accrued distribution service fees (Class B) | | 13,860 |
| Other accrued expenses and payables | | 64,073 |
| Total liabilities | | 31,099,457 |
| **Net assets, at value** | **$** | **1,083,559,196** |

| Net Assets | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 2,385,713 |
| Net unrealized appreciation (depreciation) on investments | | 223,876,628 |
| Accumulated net realized gain (loss) | | (247,173,603) |
| Paid-in capital | | 1,104,470,458 |
| **Net assets, at value** | **$** | **1,083,559,196** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($1,014,024,325 ÷ 64,463,237 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **15.73** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($69,534,871 ÷ 4,434,278 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **15.68** |

* *Represents collateral on securities loaned.*

### Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 4,438,753 |
| Interest — Scudder Cash Management QP Trust | | 191,424 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 8,769 |
| Total Income | | 4,638,946 |
| Expenses: | | |
| Management fee | | 1,896,688 |
| Custodian and accounting fees | | 81,672 |
| Distribution service fees (Class B) | | 47,337 |
| Record keeping fees (Class B) | | 24,201 |
| Auditing | | 15,049 |
| Legal | | 13,987 |
| Trustees' fees and expenses | | 12,161 |
| Reports to shareholders | | 17,340 |
| Other | | 24,396 |
| Total expenses, before expense reductions | | 2,132,831 |
| Expense reductions | | (3,490) |
| Total expenses, after expense reductions | | 2,129,341 |
| **Net investment income (loss)** | | **2,509,605** |

| Realized and Unrealized Gain (Loss) on Investment Transactions | | |
|---|---|---|
| Net realized gain (loss) from investments | | 5,090,992 |
| Net unrealized appreciation (depreciation) during the period on investments | | 17,020,571 |
| **Net gain (loss) on investment transactions** | | **22,111,563** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **24,621,168** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 2,509,605 | $ 6,855,154 |
| Net realized gain (loss) on investment transactions | 5,090,992 | (47,247,081) |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 17,020,571 | 94,779,509 |
| Net increase (decrease) in net assets resulting from operations | 24,621,168 | 54,387,582 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (6,678,103) | (3,764,724) |
| Class B | (143,508) | (32,841) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 15,128,263 | 32,110,324 |
| Net assets acquired in tax free reorganization | 335,682,359 | — |
| Reinvestment of distributions | 6,678,103 | 3,764,724 |
| Cost of shares redeemed | (57,406,594) | (92,227,827) |
| Net increase (decrease) in net assets from Class A share transactions | 300,082,131 | (56,352,779) |
| **Class B** | | |
| Proceeds from shares sold | 45,780,591 | 8,550,042 |
| Net assets acquired in tax free reorganization | 44,685,282 | — |
| Reinvestment of distributions | 143,508 | 32,841 |
| Cost of shares redeemed | (46,424,147) | (1,806,233) |
| Net increase (decrease) in net assets from Class B share transactions | 44,185,234 | 6,776,650 |
| **Increase (decrease) in net assets** | 362,066,922 | 1,013,888 |
| Net assets at beginning of period | 721,492,274 | 720,478,386 |
| Net assets at end of period (including undistributed net investment income of $2,385,713 and $6,697,719, respectively) | **$ 1,083,559,196** | **$ 721,492,274** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 44,544,616 | 48,332,734 |
| Shares sold | 975,486 | 2,172,282 |
| Shares issued in tax free reorganization | 22,200,595 | — |
| Shares issued to shareholders in reinvestment of distributions | 441,966 | 255,928 |
| Shares redeemed | (3,699,426) | (6,216,328) |
| Net increase (decrease) in Class A shares | 19,918,621 | (3,788,118) |
| Shares outstanding at end of period | **64,463,237** | **44,544,616** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,503,725 | 1,044,792 |
| Shares sold | 3,033,372 | 579,183 |
| Shares issued in tax free reorganization | 2,963,218 | — |
| Shares issued to shareholders in reinvestment of distributions | 9,523 | 2,239 |
| Shares redeemed | (3,075,560) | (122,489) |
| Net increase (decrease) in Class B shares | 2,930,553 | 458,933 |
| Shares outstanding at end of period | **4,434,278** | **1,503,725** |

*The accompanying notes are an integral part of the financial statements.*

## Capital Growth Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 15.67** | **$ 14.59** | **$ 11.54** | **$ 16.36** | **$ 23.07** | **$ 29.13** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .05 | .14 | .08 | .05 | .05 | .08 |
| Net realized and unrealized gain (loss) on investment transactions | .17 | 1.02 | 3.03 | (4.82) | (4.21) | (2.63) |
| **Total from investment operations** | .22 | 1.16 | 3.11 | (4.77) | (4.16) | (2.55) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.16) | (.08) | (.06) | (.05) | (.08) | (.07) |
| Net realized gains on investment transactions | — | — | — | — | (2.47) | (3.44) |
| **Total distributions** | (.16) | (.08) | (.06) | (.05) | (2.55) | (3.51) |
| **Net asset value, end of period** | **$ 15.73** | **$ 15.67** | **$ 14.59** | **$ 11.54** | **$ 16.36** | **$ 23.07** |
| Total Return (%) | 1.41** | 7.99 | 26.89 | (29.18) | (19.36) | (9.90) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 1,014 | 698 | 705 | 558 | 866 | 1,126 |
| Ratio of expenses before expense reductions (%) | .50* | .50 | .51 | .51 | .52[d] | .49 |
| Ratio of expenses after expense reductions (%) | .50* | .50 | .51 | .51 | .50[d] | .49 |
| Ratio of net investment income (loss) (%) | .63* | .98 | .61 | .38 | .27 | .30 |
| Portfolio turnover rate (%) | 14* | 15 | 13 | 25 | 33 | 55 |

### Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 15.59** | **$ 14.52** | **$ 11.49** | **$ 16.29** | **$ 23.00** | **$ 29.05** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .02 | .09 | .03 | .02 | .00[c] | .01 |
| Net realized and unrealized gain (loss) on investment transactions | .17 | 1.01 | 3.02 | (4.81) | (4.21) | (2.62) |
| **Total from investment operations** | .19 | 1.10 | 3.05 | (4.79) | (4.21) | (2.61) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.10) | (.03) | (.02) | (.01) | (.03) | — |
| Net realized gains on investment transactions | — | — | — | — | (2.47) | (3.44) |
| **Total distributions** | (.10) | (.03) | (.02) | (.01) | (2.50) | (3.44) |
| **Net asset value, end of period** | **$ 15.68** | **$ 15.59** | **$ 14.52** | **$ 11.49** | **$ 16.29** | **$ 23.00** |
| Total Return (%) | 1.22** | 7.56 | 26.51 | (29.37) | (19.64) | (10.13) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 70 | 23 | 15 | .89 | .71 | 1.16 |
| Ratio of expenses before expense reductions (%) | .88* | .88 | .87 | .76 | .77[d] | .74 |
| Ratio of expenses after expense reductions (%) | .88* | .88 | .87 | .76 | .75[d] | .74 |
| Ratio of net investment income (loss) (%) | .25* | .60 | .25 | .13 | .02 | .05 |
| Portfolio turnover rate (%) | 14* | 15 | 13 | 25 | 33 | 55 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *Based on average shares outstanding during the period.*

[c] *Amount is less than $.005.*

[d] *The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were .50% and .50%, and .75% and .75% for Class A and Class B, respectively.*

* *Annualized*

** *Not annualized*

## Global Discovery Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Class B shares limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,045.60 | $ 1,044.60 |
| Expenses Paid per $1,000* | $ 5.73 | $ 6.29 |
| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.19 | $ 1,018.65 |
| Expenses Paid per $1,000* | $ 5.66 | $ 6.21 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series I — Global Discovery Portfolio | 1.13% | 1.24% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Global Discovery Portfolio

For the first half of 2005, the Global Discovery Portfolio delivered a return of 4.56% (Class A shares, unadjusted for contract charges), outpacing the 2.29% return of the Citigroup World Equity EMI. The portfolio finished third among the 34 comparable annuity portfolios in Lipper's Global Growth category. We are pleased to note that these returns were achieved in an environment in which (1) the decline in the value of the dollar hurt the portfolio's overseas holdings, (2) value stocks outperformed growth stocks, and (3) US small caps underperformed their large-cap counterparts.

We continue to employ a disciplined, research-oriented approach to construct the portfolio one stock at a time. We generated the best performance in the health care, consumer discretionary and financials sectors, where our top contributors were Celgene Corp., Advance Auto Parts, Inc. and Legg Mason, Inc., respectively. Although our stock selection was strong virtually across the board, two notable detractors from performance were Harman International Industries, Inc. and The First Marblehead Corp., both of which we continue to hold in the portfolio.

From a broader perspective, we are finding some of the most attractive investment opportunities in Europe, which is home to a large number of under-researched, fast-growing small-cap companies. In market capitalization terms, the portfolio has more of a mid-cap bias than it did six months ago, due to our focus on higher-quality, more attractively valued growth stocks. Overall, we believe the strong fundamentals of the companies we own will allow the portfolio to deliver outperformance even if the environment for small caps becomes more challenging.

Joseph Axtell, CFA
*Lead Portfolio Manager*
Terrence S. Gray, CFA
*Portfolio Manager*

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuations, political and economic changes and market risks. Additionally, stocks of small-sized companies involve greater risk as they often have limited product lines, markets or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more established companies. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The S&P/Citigroup World Equity Extended Market Index (Citigroup World Equity EMI), formerly Salomon Smith Barney World Equity Extended Market Index, is an unmanaged index of small-capitalization stocks within 22 countries around the globe. Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*The Lipper Global Growth includes funds that, by portfolio practice, invest at least 75% of their equity assets in companies both inside and outside of the U.S. with market capitalizations (on a three–year weighted basis) greater than the 500th–largest company in the S&P/Citigroup World Broad Market Index. Large–capgrowth funds typically have an above–average price–to–cash flow ratio, price–to–book ratio, and three–year sales–per–share growth value compared to the S&P/Citigroup World BMI.*

*Source: Lipper Inc. Rankings are historical and do not guarantee future results. Rankings are based on the fund's total return unadjusted for sales charges with distributions reinvested. If sales charges had been included, results might have been less favorable. Rankings are for Class A shares; other share classes may vary.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Global Discovery Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks and Warrants | 95% | 94% |
| Cash Equivalents | 5% | 6% |
| | 100% | 100% |

| **Geographical Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Europe | 38% | 41% |
| United States | 38% | 35% |
| Pacific Basin | 7% | 5% |
| Japan | 6% | 7% |
| United Kingdom | 5% | 5% |
| Australia | 2% | 2% |
| Canada | 2% | 2% |
| Latin America | 2% | 2% |
| Other | — | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Financials | 24% | 25% |
| Consumer Discretionary | 19% | 21% |
| Information Technology | 16% | 16% |
| Industrials | 15% | 15% |
| Health Care | 12% | 12% |
| Materials | 4% | 3% |
| Energy | 3% | 3% |
| Utilities | 3% | 2% |
| Consumer Staples | 2% | 2% |
| Telecommunication Services | 2% | 1% |
| | 100% | 100% |

*Asset allocation, geographical diversification and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 23. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Global Discovery Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 95.1%** | | |
| **Australia 1.9%** | | |
| Macquarie Bank Ltd. | 82,911 | 3,749,232 |
| QBE Insurance Group Ltd. | 129,798 | 1,579,264 |
| (Cost $1,890,859) | | **5,328,496** |
| **Austria 0.4%** | | |
| Wienerberger AG (Cost $945,863) | 26,696 | **1,235,839** |
| **Brazil 1.6%** | | |
| Aracruz Celulose SA "B" (ADR) | 72,200 | 2,508,950 |
| Empresa Brasiliera de Aeronautica SA (Preferred) (ADR) | 62,118 | 2,054,242 |
| (Cost $3,280,892) | | **4,563,192** |
| **Canada 1.5%** | | |
| OPTI Canada, Inc.* | 43,600 | 951,926 |
| ZENON Environmental, Inc.* | 167,800 | 3,385,583 |
| (Cost $3,689,931) | | **4,337,509** |
| **Denmark 1.1%** | | |
| GN Store Nord A/S (GN Great Nordic) (Cost $2,726,276) | 267,500 | **3,022,800** |
| **France 3.5%** | | |
| Autoroutes du Sud de la France | 78,146 | 4,453,491 |
| Flamel Technologies SA (ADR)* (c) | 120,200 | 2,176,221 |
| JC Decaux SA* | 124,962 | 3,162,791 |
| (Cost $5,825,794) | | **9,792,503** |
| **Germany 11.3%** | | |
| AWD Holding AG | 115,651 | 4,850,048 |
| Deutsche Boerse AG (c) | 55,538 | 4,337,289 |
| Fresenius Medical Care AG (c) | 78,691 | 6,717,514 |
| Hypo Real Estate Holding AG | 83,019 | 3,151,707 |
| Puma AG | 11,791 | 2,912,945 |
| Rational AG | 15,679 | 1,688,480 |
| Stada Arzneimittel AG | 106,086 | 3,855,260 |
| United Internet AG (c) | 52,591 | 1,496,751 |
| Wincor Nixdorf AG | 33,233 | 2,717,902 |
| (Cost $20,566,112) | | **31,727,896** |
| **Greece 5.6%** | | |
| Alpha Bank AE | 54,112 | 1,437,912 |
| Coca-Cola Hellenic Bottling Co. SA | 101,200 | 2,755,007 |
| Dryships, Inc.* | 124,100 | 2,048,891 |
| Germanos SA | 75,200 | 2,520,584 |
| Greek Organization of Football Prognostics | 50,200 | 1,442,477 |
| Piraeus Bank SA | 195,800 | 3,655,355 |
| Titan Cement Co. | 63,600 | 1,957,070 |
| (Cost $12,410,226) | | **15,817,296** |
| **Hong Kong 3.0%** | | |
| Kingboard Chemical Holdings Ltd. | 1,358,100 | 4,305,308 |
| Midland Realty Holdings Ltd. | 2,310,600 | 1,285,831 |
| Wing Hang Bank Ltd. | 433,300 | 2,812,739 |
| (Cost $5,322,979) | | **8,403,878** |
| **India 0.4%** | | |
| Mahindra & Mahindra Ltd. (Cost $1,078,064) | 96,900 | **1,243,438** |

| | Shares | Value ($) |
|---|---|---|
| **Ireland 6.5%** | | |
| Anglo Irish Bank Corp. PLC | 956,116 | 11,855,036 |
| FBD Holdings PLC | 15,800 | 516,183 |
| ICON PLC (ADR)* | 28,200 | 978,540 |
| Irish Continental Group PLC* | 65,360 | 777,903 |
| Jurys Doyle Hotel Group PLC | 154,600 | 2,901,258 |
| Ryanair Holdings PLC* | 170,600 | 1,317,534 |
| (Cost $4,856,872) | | **18,346,454** |
| **Japan 5.7%** | | |
| AEON Credit Services Co., Ltd. | 33,600 | 2,095,464 |
| AEON Mall Co., Ltd. (c) | 72,000 | 2,525,826 |
| JAFCO Co., Ltd. (c) | 22,100 | 1,168,576 |
| Matsui Securities Co., Ltd. (c) | 167,500 | 1,791,257 |
| Nidec Corp. | 37,700 | 3,969,910 |
| Park24 Co., Ltd. (c) | 110,000 | 2,172,560 |
| Sumitomo Realty & Development Co., Ltd. | 201,000 | 2,239,239 |
| (Cost $12,902,537) | | **15,962,832** |
| **Korea 0.8%** | | |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 90,900 | 1,734,015 |
| Korea Information Service, Inc. | 35,000 | 670,649 |
| (Cost $2,348,063) | | **2,404,664** |
| **Netherlands 3.8%** | | |
| Chicago Bridge & Iron Co., NV (New York Shares) (ADR) | 124,600 | 2,848,356 |
| IHC Caland NV | 56,185 | 3,846,090 |
| TomTom NV* | 16,500 | 362,210 |
| Vedior NV | 266,908 | 3,753,092 |
| (Cost $7,700,505) | | **10,809,748** |
| **Norway 0.7%** | | |
| Tandberg ASA (c) (Cost $1,024,313) | 172,700 | **1,844,563** |
| **Russia 0.9%** | | |
| Mobile Telesystems (ADR) (Cost $562,491) | 72,200 | **2,429,530** |
| **Spain 0.5%** | | |
| Amadeus Global Travel Distribution SA "A" (Cost $846,442) | 151,800 | **1,328,195** |
| **Sweden 1.6%** | | |
| Brostrom AB "B" | 88,700 | 1,383,733 |
| Eniro AB | 203,500 | 2,310,063 |
| Micronic Laser Systems AB* (c) | 62,700 | 700,134 |
| (Cost $3,379,314) | | **4,393,930** |
| **Switzerland 0.8%** | | |
| Advanced Digital Broadcast Holdings SA (ADB Group)* | 27,040 | 1,213,266 |
| Micronas Semiconductor Holdings AG (Foreign Registered)* | 25,287 | 952,893 |
| (Cost $2,212,522) | | **2,166,159** |
| **Taiwan 2.0%** | | |
| Compal Electronics, Inc. | 1,912,880 | 1,895,161 |
| Siliconware Precision Industries Co. | 2,629,600 | 2,572,649 |
| Yang Ming Marine Transport | 1,349,000 | 1,201,874 |
| (Cost $6,014,669) | | **5,669,684** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Thailand 1.1%** | | |
| Bangkok Bank PCL (Foreign Registered) | 616,500 | 1,604,292 |
| True Corp. PCL (Foreign Registered)* | 6,210,800 | 1,563,032 |
| (Cost $2,973,231) | | **3,167,324** |
| **United Kingdom 4.3%** | | |
| Aegis Group PLC | 1,233,708 | 2,188,791 |
| ARM Holdings PLC | 762,662 | 1,541,096 |
| Group 4 Securicor PLC* (c) | 459,560 | 1,236,274 |
| John Wood Group PLC | 306,492 | 939,886 |
| Misys PLC | 399,773 | 1,695,677 |
| Taylor Nelson Sofres PLC | 593,293 | 2,312,860 |
| Viridian Group PLC | 150,082 | 2,094,559 |
| (Cost $13,098,900) | | **12,009,143** |
| **United States 36.1%** | | |
| Advance Auto Parts, Inc.* | 65,600 | 4,234,480 |
| Advanced Medical Optics, Inc.* | 71,400 | 2,838,150 |
| Aeropostale, Inc.* | 94,700 | 3,181,920 |
| Affiliated Computer Services, Inc. "A"* | 33,000 | 1,686,300 |
| Allegheny Energy, Inc.* | 226,800 | 5,719,896 |
| Allion Healthcare, Inc.* | 21,200 | 347,722 |
| AMERIGROUP Corp.* | 72,600 | 2,918,520 |
| Applied Micro Circuits Corp.* | 233,100 | 596,736 |
| Carter's, Inc.* | 48,900 | 2,854,782 |
| Celgene Corp.* | 90,200 | 3,677,454 |
| Diebold, Inc. | 68,800 | 3,103,568 |
| Fiserv, Inc.* | 95,000 | 4,080,250 |
| Foundation Coal Holdings, Inc. | 71,900 | 1,865,086 |
| FTI Consulting, Inc.* | 85,550 | 1,787,995 |
| Gentex Corp. | 117,000 | 2,129,400 |
| GTECH Holdings Corp. | 158,800 | 4,643,312 |
| Harman International Industries, Inc. | 43,300 | 3,522,888 |
| Harris Interactive, Inc.* | 148,300 | 722,221 |
| Invitrogen Corp.* | 38,600 | 3,214,994 |
| Joy Global, Inc. | 68,950 | 2,316,031 |
| Kenneth Cole Productions, Inc. "A" | 68,900 | 2,144,168 |
| Lam Research Corp.* | 47,200 | 1,365,968 |
| LECG Corp.* | 80,300 | 1,707,178 |
| Legg Mason, Inc. (c) | 73,150 | 7,615,647 |
| Mercury Interactive Corp.* | 50,800 | 1,948,688 |
| NeuStar, Inc. "A"* | 10,900 | 279,040 |
| New York & Co., Inc.* | 148,300 | 3,123,198 |
| P.F. Chang's China Bistro, Inc.* | 49,100 | 2,895,918 |
| Rowan Companies, Inc. | 50,100 | 1,488,471 |
| Spinnaker Exploration Co.* | 29,700 | 1,054,053 |
| Symbol Technologies, Inc. | 122,893 | 1,212,954 |
| Telik, Inc.* | 115,500 | 1,878,030 |
| The First Marblehead Corp.* (c) | 99,700 | 3,495,482 |
| Thoratec Corp.* | 118,500 | 1,817,790 |
| THQ, Inc.* | 124,100 | 3,632,407 |
| Ultra Petroleum Corp.* | 120,700 | 3,664,451 |
| Waters Corp.* | 66,500 | 2,471,805 |
| Zions Bancorp. | 58,200 | 4,279,444 |
| (Cost $78,196,520) | | **101,516,397** |
| **Total Common Stocks** (Cost $193,853,373) | | **267,521,470** |

## Warrants 0.0%

| | Shares | Value ($) |
|---|---|---|
| **Hong Kong** | | |
| Kingboard Chemical Holdings Ltd.* (Cost $849) | 91,640 | **57,784** |

## Securities Lending Collateral 8.6%

| | Shares | Value ($) |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (d)(e) (Cost $24,080,987) | 24,080,987 | **24,080,987** |

## Cash Equivalents 4.7%

| | Shares | Value ($) |
|---|---|---|
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $13,177,972) | 13,177,972 | **13,177,972** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $231,113,181) (a) | 108.4 | **304,838,213** |
| **Other Assets and Liabilities, Net** | (8.4) | **(23,654,979)** |
| **Net Assets** | 100.0 | **281,183,234** |

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $232,821,668. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $72,016,545. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $81,033,394 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,016,849.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $23,032,929, which is 8.2% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*Purchases and sales of investment securities (excluding short-term investments) for the six months ended June 30, 2005, aggregated $57,703,257 and $41,650,042, respectively.*

*At December 31, 2004, the Global Discovery Portfolio had a net tax basis capital loss carryforward of approximately $42,800,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 ($11,900,000), December 31, 2010 ($25,700,000) and December 31, 2011 ($5,200,000), the respective expiration dates, whichever occurs first.*

*The accompanying notes are an integral part of the financial statements.*

## Global Discovery Portfolio

### Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $193,854,222), including $23,032,929 of securities loaned | $ | 267,579,254 |
| Investment in Scudder Daily Assets Fund Institutional (cost $24,080,987)* | | 24,080,987 |
| Investment in Scudder Cash Management QP Trust (cost $13,177,972) | | 13,177,972 |
| Total investment in securities, at value (cost $231,113,181) | | 304,838,213 |
| Foreign currency, at value (cost $7,355) | | 7,341 |
| Receivable for investments sold | | 800,115 |
| Dividends receivable | | 392,782 |
| Interest receivable | | 66,303 |
| Receivable for Portfolio shares sold | | 61,708 |
| Foreign taxes recoverable | | 18,945 |
| Total assets | | 306,185,407 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 24,080,987 |
| Payable for investments purchased | | 471,998 |
| Payable for Portfolio shares redeemed | | 138,574 |
| Deferred foreign taxes | | 91 |
| Accrued management fee | | 277,000 |
| Accrued distribution service fees (Class B) | | 2,807 |
| Other accrued expenses and payables | | 30,716 |
| Total liabilities | | 25,002,173 |
| **Net assets, at value** | **$** | **281,183,234** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Accumulated distributions in excess of net investment income | | (490,070) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments (net of deferred foreign taxes of $91) | | 73,724,941 |
| Foreign currency related transactions | | (5,285) |
| Accumulated net realized gain (loss) | | (24,227,263) |
| Paid-in capital | | 232,180,911 |
| **Net assets, at value** | **$** | **281,183,234** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($254,033,275 ÷ 19,148,014 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **13.27** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($27,149,959 ÷ 2,068,094 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | **$** | **13.13** |

* *Represents collateral on securities loaned.*

### Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends (net of foreign taxes withheld of $195,155) | $ | 2,196,639 |
| Interest — Scudder Cash Management QP Trust | | 172,395 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 119,832 |
| Total Income | | 2,488,866 |
| Expenses: | | |
| Management fee | | 1,291,273 |
| Custodian and accounting fees | | 159,159 |
| Distribution service fees (Class B) | | 31,127 |
| Record keeping fee (Class B) | | 11,756 |
| Auditing | | 18,387 |
| Legal | | 8,028 |
| Trustees' fees and expenses | | 5,852 |
| Reports to shareholders | | 9,791 |
| Interest expense | | 277 |
| Other | | 10,958 |
| Total expenses, before expense reductions | | 1,546,608 |
| Expense reductions | | (31,438) |
| Total expenses, after expense reductions | | 1,515,170 |
| **Net investment income (loss)** | | **973,696** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 18,935,281 |
| Foreign currency related transactions | | (19,062) |
| | | 18,916,219 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments (net of deferred foreign taxes of $91) | | (7,990,831) |
| Foreign currency related transactions | | (15,830) |
| | | (8,006,661) |
| **Net gain (loss) on investment transactions** | | **10,909,558** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **11,883,254** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 973,696 | $ 160,121 |
| Net realized gain (loss) on investment transactions | 18,916,219 | 13,182,071 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (8,006,661) | 33,488,081 |
| Net increase (decrease) in net assets resulting from operations | 11,883,254 | 46,830,273 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (1,475,427) | (501,729) |
| Class B | (100,297) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 21,457,834 | 33,267,780 |
| Reinvestment of distributions | 1,475,427 | 501,729 |
| Cost of shares redeemed | (10,249,845) | (26,576,758) |
| Net increase (decrease) in net assets from Class A share transactions | 12,683,416 | 7,192,751 |
| **Class B** | | |
| Proceeds from shares sold | 4,251,423 | 9,197,327 |
| Reinvestment of distributions | 100,297 | — |
| Cost of shares redeemed | (1,845,811) | (3,074,994) |
| Net increase (decrease) in net assets from Class B share transactions | 2,505,909 | 6,122,333 |
| **Increase (decrease) in net assets** | 25,496,855 | 59,643,628 |
| Net assets at beginning of period | 255,686,379 | 196,042,751 |
| Net assets at end of period (including accumulated distributions in excess of net investment income and undistributed net investment income of $490,070 and $111,958, respectively) | **$ 281,183,234** | **$ 255,686,379** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 18,170,922 | 17,610,512 |
| Shares sold | 1,654,237 | 2,966,838 |
| Shares issued to shareholders in reinvestment of distributions | 116,727 | 46,673 |
| Shares redeemed | (793,872) | (2,453,101) |
| Net increase (decrease) in Class A shares | 977,092 | 560,410 |
| Shares outstanding at end of period | **19,148,014** | **18,170,922** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,871,933 | 1,289,405 |
| Shares sold | 332,631 | 862,506 |
| Shares issued to shareholders in reinvestment of distributions | 8,017 | — |
| Shares redeemed | (144,487) | (279,978) |
| Net increase (decrease) in Class B shares | 196,161 | 582,528 |
| Shares outstanding at end of period | **2,068,094** | **1,871,933** |

*The accompanying notes are an integral part of the financial statements.*

## Global Discovery Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.77** | **$ 10.38** | **$ 6.97** | **$ 8.70** | **$ 11.76** | **$ 13.18** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[b] | .05 | .01 | .02 | (.00)[c] | (.00)[c] | (.03) |
| Net realized and unrealized gain (loss) on investment transactions | .53 | 2.41 | 3.40 | (1.73) | (2.87) | (.62) |
| **Total from investment operations** | .58 | 2.42 | 3.42 | (1.73) | (2.87) | (.65) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.08) | (.03) | (.01) | — | — | (.11) |
| Net realized gains on investment transactions | — | — | — | — | (.19) | (.66) |
| **Total distributions** | (.08) | (.03) | (.01) | — | (.19) | (.77) |
| **Net asset value, end of period** | **$ 13.27** | **$ 12.77** | **$ 10.38** | **$ 6.97** | **$ 8.70** | **$ 11.76** |
| Total Return (%) | 4.56** | 23.35 | 49.09 | (19.89) | (24.59) | (5.29) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 254 | 232 | 183 | 121 | 150 | 159 |
| Ratio of expenses before expense reductions (%) | 1.13* | 1.18 | 1.18 | 1.19 | 1.23[d] | 1.28 |
| Ratio of expenses after expense reductions (%) | 1.13* | 1.18 | 1.18 | 1.19 | 1.22[d] | 1.28 |
| Ratio of net investment income (loss) (%) | .75* | .09 | .28 | (.03) | .00[e] | (.25) |
| Portfolio turnover rate (%) | 34* | 24 | 41 | 47 | 56 | 66 |

### Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.62** | **$ 10.25** | **$ 6.89** | **$ 8.62** | **$ 11.69** | **$ 13.11** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[b] | .04 | (.01) | .00[c] | (.02) | (.02) | (.07) |
| Net realized and unrealized gain (loss) on investment transactions | .52 | 2.38 | 3.36 | (1.71) | (2.86) | (.61) |
| **Total from investment operations** | .56 | 2.37 | 3.36 | (1.73) | (2.88) | (.68) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.05) | — | — | — | — | (.08) |
| Net realized gains on investment transactions | — | — | — | — | (.19) | (.66) |
| **Total distributions** | (.05) | — | — | — | (.19) | (.74) |
| **Net asset value, end of period** | **$ 13.13** | **$ 12.62** | **$ 10.25** | **$ 6.89** | **$ 8.62** | **$ 11.69** |
| Total Return (%) | 4.46[f]** | 23.12[f] | 48.77 | (20.07) | (24.96) | (5.42) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 27 | 24 | 13 | 4 | 7 | 11 |
| Ratio of expenses before expense reductions (%) | 1.48* | 1.52 | 1.43 | 1.44 | 1.48[d] | 1.53 |
| Ratio of expenses after expense reductions (%) | 1.24* | 1.39 | 1.43 | 1.44 | 1.47[d] | 1.53 |
| Ratio of net investment income (loss) (%) | .64* | (.12) | .03 | (.28) | (.25) | (.52) |
| Portfolio turnover rate (%) | 34* | 24 | 41 | 47 | 56 | 66 |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *Based on average shares outstanding during the period.*
[c] *Amount is less than $.005.*
[d] *The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were 1.22% and 1.22%, and 1.47% and 1.47% for Class A and Class B, respectively.*
[e] *Amount is less than .005%.*
[f] *Total return would have been less had certain expenses not been reduced.*
* *Annualized* ** *Not annualized*

## International Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Class B shares limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 997.90 | $ 995.70 |
| Expenses Paid per $1,000* | $ 5.00 | $ 6.78 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.79 | $ 1,018.00 |
| Expenses Paid per $1,000* | $ 5.06 | $ 6.85 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series I — International Portfolio | 1.01% | 1.37% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## International Portfolio

International equities delivered lackluster returns for US dollar investors in the first half of 2005. Although international stocks fared well in local currency terms, the strength of the US dollar erased the majority of those gains, leaving only emerging markets in positive territory. The portfolio's Class A shares' return, unadjusted for contract charges, was –0.21%, outperforming the –1.17% return of the MSCI EAFE Index.

The portfolio's performance was boosted by our stock selection in information technology, energy and materials. Although the information technology sector was one of the weakest sectors in the index, investments in that sector were the portfolio's strongest performers, due to positive stock selection. A top performer for the portfolio was Samsung Electronics Co., Ltd., which rose on heightened earnings expectations for the latter half of the year. The portfolio's holdings in energy and materials benefited from strong sector performance as well as strength in individual stocks such as Shell Transport & Trading Co., PLC, Statoil ASA and BHP Billiton PLC. Detractors from performance included an underweight in utilities and a position in Astellas Pharma, Inc., which declined on concerns that the Japanese government may rein in drug prices next year.

During the first half of the year, stock prices were influenced by concerns about slower global growth, sustained high oil prices and rising inflation expectations. We anticipate that these risks are short term in nature since increasing globalization and rising productivity should continue to act as a counterbalance. In the short term, however, we believe the portfolio is positioned to benefit from these forces through its overweight in energy.

| | |
|---|---|
| Alex Tedder | Matthias Knerr, CFA |
| *Lead Manager* | Sangita Uberoi, CFA |
| | *Managers* |

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Morgan Stanley Capital International (MSCI) Europe, Australia, Far East (EAFE) Index is an unmanaged capitalization-weighted measure of stock markets in Europe, Australia and the Far East. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates.*

*Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## International Portfolio

| Asset Allocation (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 98% | 100% |
| Cash Equivalents | 2% | — |
| | 100% | 100% |

| Geographical Diversification (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Europe (excluding United Kingdom) | 52% | 47% |
| United Kingdom | 20% | 21% |
| Japan | 19% | 23% |
| Pacific Basin | 5% | 6% |
| Australia | 2% | 1% |
| Latin America | 1% | 2% |
| Other | 1% | — |
| | 100% | 100% |

| Sector Diversification (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 29% | 30% |
| Consumer Discretionary | 14% | 13% |
| Energy | 11% | 10% |
| Industrials | 10% | 7% |
| Health Care | 8% | 9% |
| Materials | 7% | 6% |
| Telecommunication Services | 7% | 8% |
| Information Technology | 6% | 7% |
| Consumer Staples | 4% | 5% |
| Utilities | 4% | 5% |
| | 100% | 100% |

*Asset allocation, geographical diversification and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 31. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## International Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 97.3%** | | |
| **Australia 1.5%** | | |
| Australia & New Zealand Banking Group Ltd. | 355,692 | 5,866,060 |
| Macquarie Airports | 804,054 | 2,185,145 |
| (Cost $6,651,572) | | **8,051,205** |
| **Austria 1.6%** | | |
| Wienerberger AG (Cost $7,273,140) | 194,138 | **9,005,879** |
| **Brazil 1.5%** | | |
| Companhia Vale do Rio Doce (ADR) | 149,106 | 4,365,824 |
| Petroleo Brasileiro SA (ADR) | 70,000 | 3,649,100 |
| (Cost $3,779,130) | | **8,014,924** |
| **China 0.4%** | | |
| China Petroleum & Chemical Corp. "H" (Cost $2,756,214) | 6,340,427 | **2,479,653** |
| **Finland 2.1%** | | |
| Nokia Oyj | 187,357 | 3,117,959 |
| Nokia Oyj (ADR) | 128,290 | 2,134,746 |
| Nokian Renkaat Oyj | 333,110 | 6,074,591 |
| (Cost $11,061,965) | | **11,327,296** |
| **France 5.5%** | | |
| Axa | 249,200 | 6,197,464 |
| BNP Paribas SA | 109,670 | 7,498,031 |
| Total SA | 71,833 | 16,821,991 |
| (Cost $20,364,508) | | **30,517,486** |
| **Germany 11.2%** | | |
| Adidas-Salomon AG | 37,200 | 6,205,709 |
| BASF AG | 93,290 | 6,183,257 |
| Bayer AG | 161,460 | 5,369,996 |
| Continental AG | 66,010 | 4,745,378 |
| Deutsche Post AG (Registered) | 236,800 | 5,529,153 |
| E.ON AG | 130,386 | 11,575,679 |
| Fresenius Medical Care AG (c) | 52,870 | 4,513,286 |
| Hypo Real Estate Holding AG | 211,700 | 8,036,912 |
| Metro AG | 85,030 | 4,208,994 |
| Schering AG | 32,125 | 1,967,392 |
| Siemens AG | 51,470 | 3,741,746 |
| (Cost $54,323,453) | | **62,077,502** |
| **Greece 1.8%** | | |
| Alpha Bank AE | 203,208 | 5,399,824 |
| Hellenic Telecommunications Organization SA | 236,920 | 4,570,783 |
| (Cost $6,564,168) | | **9,970,607** |
| **Hong Kong 1.9%** | | |
| Esprit Holdings Ltd. (Cost $6,474,671) | 1,430,748 | **10,296,756** |
| **Hungary 0.8%** | | |
| OTP Bank Rt "S" (GDR) (Registered) (Cost $1,331,924) | 68,457 | **4,566,152** |
| **India 1.0%** | | |
| ICICI Bank Ltd. (Cost $4,568,797) | 587,502 | **5,667,594** |
| **Indonesia 1.1%** | | |
| PT Telekomunikasi Indonesia (ADR) (Cost $5,990,301) | 279,000 | **5,817,150** |
| **Ireland 2.4%** | | |
| Anglo Irish Bank Corp. PLC | 451,240 | 5,594,997 |
| CRH PLC | 195,110 | 5,178,027 |
| Grafton Group PLC (Units)* | 232,782 | 2,696,513 |
| (Cost $13,493,534) | | **13,469,537** |
| **Italy 4.8%** | | |
| Banca Intesa SpA | 2,017,760 | 9,204,493 |
| Enel SpA (c) | 348,738 | 3,031,082 |
| Eni SpA (c) | 386,720 | 9,928,529 |
| Toro Assicurazioni SpA (c) | 291,848 | 4,538,360 |
| (Cost $20,737,736) | | **26,702,464** |
| **Japan 18.8%** | | |
| Aiful Corp. | 57,956 | 4,303,531 |
| Astellas Pharma, Inc. | 168,100 | 5,736,637 |
| Canon, Inc. (c) | 207,700 | 10,879,178 |
| Credit Saison Co., Ltd. | 85,000 | 2,816,662 |
| Dai Nippon Printing Co., Ltd. | 186,390 | 2,995,013 |
| Daito Trust Construction Co., Ltd. | 105,700 | 3,946,289 |
| Hoya Corp. | 58,500 | 6,720,397 |
| Mitsubishi Corp. | 770,000 | 10,415,776 |
| Mitsubishi Tokyo Financial Group, Inc. | 636 | 5,368,693 |
| Mitsui Fudosan Co., Ltd. | 378,000 | 4,232,091 |
| Mizuho Financial Group, Inc. | 2,172 | 9,781,372 |
| Nippon Steel Corp. | 2,557,629 | 5,915,088 |
| Nissan Motor Co., Ltd. | 694,157 | 6,833,484 |
| Sega Sammy Holdings, Inc. | 144,400 | 8,818,458 |
| Sharp Corp. | 212,269 | 3,304,187 |
| Toyota Motor Corp. | 331,800 | 11,862,649 |
| (Cost $84,590,887) | | **103,929,505** |
| **Korea 1.0%** | | |
| Samsung Electronics Co., Ltd. (Cost $2,469,096) | 11,347 | **5,376,124** |
| **Netherlands 2.1%** | | |
| ING Groep NV | 261,128 | 7,346,449 |
| Stork NV | 107,000 | 4,420,997 |
| (Cost $9,114,085) | | **11,767,446** |
| **Norway 2.0%** | | |
| Statoil ASA | 280,868 | 5,708,368 |
| Telenor ASA (c) | 672,800 | 5,341,696 |
| (Cost $9,687,321) | | **11,050,064** |
| **Russia 1.2%** | | |
| AFK Sistema (GDR) 144A* | 163,792 | 2,686,189 |
| OAO Gazprom "S" (ADR) (Registered) | 105,800 | 3,804,130 |
| (Cost $6,610,722) | | **6,490,319** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Spain 3.1%** | | |
| ACS, Actividades de Construccion y Servicios SA | 247,400 | 6,900,024 |
| Telefonica SA | 625,830 | 10,218,387 |
| (Cost $12,533,481) | | **17,118,411** |
| **Sweden 3.0%** | | |
| ForeningsSparbanken AB | 240,260 | 5,262,970 |
| SKF AB "B" | 451,120 | 4,598,939 |
| Telefonaktiebolaget LM Ericsson "B"* | 2,129,537 | 6,803,214 |
| (Cost $13,208,617) | | **16,665,123** |
| **Switzerland 8.7%** | | |
| Baloise Holding AG "R" | 78,400 | 3,903,066 |
| Nestle SA (Registered) | 56,379 | 14,408,318 |
| Novartis AG (Registered) | 152,475 | 7,242,097 |
| Roche Holding AG | 85,290 | 10,755,875 |
| UBS AG (Registered) | 152,897 | 11,898,966 |
| (Cost $35,105,806) | | **48,208,322** |
| **Taiwan 0.6%** | | |
| Hon Hai Precision Industry Co., Ltd. (Cost $2,436,478) | 623,800 | **3,228,697** |
| **United Kingdom 19.2%** | | |
| AstraZeneca PLC | 103,476 | 4,275,962 |
| BAA PLC | 434,555 | 4,818,497 |
| BHP Billiton PLC | 694,630 | 8,909,563 |
| Hammerson PLC | 356,400 | 5,659,192 |
| Hilton Group PLC | 635,600 | 3,246,779 |
| HSBC Holdings PLC | 714,980 | 11,395,376 |
| Imperial Tobacco Group PLC | 297,000 | 7,976,283 |
| MFI Furniture Group PLC | 1,313,000 | 2,594,229 |
| National Grid Transco PLC | 609,470 | 5,893,570 |
| Prudential PLC | 471,376 | 4,168,352 |
| Royal Bank of Scotland Group PLC | 468,314 | 14,102,780 |
| Shell Transport & Trading Co., PLC | 1,661,026 | 16,090,756 |
| Vodafone Group PLC | 4,087,162 | 9,931,405 |
| Woolworths Group PLC | 4,124,115 | 2,727,006 |
| WPP Group PLC | 434,800 | 4,460,365 |
| (Cost $84,324,834) | | **106,250,115** |
| **Total Common Stocks** (Cost $425,452,440) | | **538,048,331** |

## Preferred Stocks 0.0%

| | Shares | Value ($) |
|---|---|---|
| **Brazil** | | |
| Companhia Vale do Rio Doce SA* (Cost $0) | 219,880 | **4,586** |

## Securities Lending Collateral 5.9%

| | Shares | Value ($) |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $32,835,517) | 32,835,517 | **32,835,517** |

## Cash Equivalents 1.9%

| | Shares | Value ($) |
|---|---|---|
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $10,222,482) | 10,222,482 | **10,222,482** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $468,510,439) (a) | 105.1 | **581,110,916** |
| **Other Assets and Liabilities, Net** | (5.1) | **(28,147,631)** |
| **Net Assets** | 100.0 | **552,963,285** |

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $473,382,310. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $107,728,606. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $115,955,372 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,226,766.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $31,233,697, which is 5.6% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*GDR: Global Depositary Receipt*

*144A: Security exempt from registration under Rule 144A if the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

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*Purchases and sales of investment securities (excluding short-term investments) for the six months ended June 30, 2005 aggregated $158,824,163 and $171,161,312, respectively.*

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*At December 31, 2004, the International Portfolio had a net tax basis capital loss carryforward of approximately $221,457,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2009 ($102,131,000), December 31, 2010 ($105,374,000) and December 31, 2011 ($13,952,000), the respective expiration dates, whichever occurs first.*

*The accompanying notes are an integral part of the financial statements.*

## International Portfolio

### Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| Assets | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $425,452,440), including $31,233,697 of securities loaned | $ | 538,052,917 |
| Investment in Scudder Daily Assets Fund Institutional (cost $32,835,517)* | | 32,835,517 |
| Investment in Scudder Cash Management QP Trust (cost $10,222,482) | | 10,222,482 |
| Total investments in securities, at value (cost $468,510,439) | | 581,110,916 |
| Cash | | 69,339 |
| Foreign currency, at value (cost $2,391,185) | | 2,314,610 |
| Receivable for investments sold | | 9,328,063 |
| Dividends receivable | | 1,390,115 |
| Interest receivable | | 70,911 |
| Receivable for Portfolio shares sold | | 212,713 |
| Foreign taxes recoverable | | 362,277 |
| Other assets | | 8,568 |
| Total assets | | 594,867,512 |

| Liabilities | | |
|---|---|---|
| Payable upon return of securities loaned | | 32,835,517 |
| Payable for investments purchased | | 8,130,523 |
| Payable for Portfolio shares redeemed | | 390,448 |
| Deferred foreign taxes | | 52,424 |
| Accrued management fee | | 382,112 |
| Accrued distribution service fees (Class B) | | 7,147 |
| Other accrued expenses and payables | | 106,056 |
| Total liabilities | | 41,904,227 |
| **Net assets, at value** | **$** | **552,963,285** |

| Net Assets | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 5,139,875 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments (net of deferred foreign taxes of $52,424) | | 112,548,053 |
| Foreign currency related transactions | | (27,829) |
| Accumulated net realized gain (loss) | | (200,749,753) |
| Paid-in capital | | 636,052,939 |
| **Net assets, at value** | **$** | **552,963,285** |

| Net Asset Value | | |
|---|---|---|
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($517,020,166 ÷ 55,461,445 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | $ | 9.32 |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($35,943,119 ÷ 3,859,163 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | $ | 9.31 |

* *Represents collateral on securities loaned.*

### Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| Investment Income | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $1,271,714) | $ | 9,676,789 |
| Interest | | 982 |
| Interest — Scudder Cash Management QP Trust | | 83,286 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 325,169 |
| Total Income | | 10,086,226 |
| Expenses: | | |
| Management fee | | 2,388,188 |
| Custodian and accounting fees | | 353,671 |
| Distribution service fees (Class B) | | 44,174 |
| Record keeping fees (Class B) | | 24,247 |
| Auditing | | 17,119 |
| Legal | | 6,349 |
| Trustees' fees and expenses | | 8,120 |
| Reports to shareholders | | 15,183 |
| Interest expense | | 5,069 |
| Other | | 15,869 |
| Total expenses, before expense reductions | | 2,877,989 |
| Expense reductions | | (7,481) |
| Total expenses, after expense reductions | | 2,870,508 |
| **Net investment income (loss)** | | **7,215,718** |

| Realized and Unrealized Gain (Loss) on Investment Transactions | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments (net of foreign taxes of $50,406) | | 24,320,606 |
| Foreign currency related transactions | | (118,688) |
| | | 24,201,918 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments (net of deferred foreign taxes of $52,424) | | (32,814,333) |
| Foreign currency related transactions | | (260,379) |
| | | (33,074,712) |
| **Net gain (loss) on investment transactions** | | **(8,872,794)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(1,657,076)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 7,215,718 | $ 5,345,381 |
| Net realized gain (loss) on investment transactions | 24,201,918 | 34,381,716 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (33,074,712) | 41,874,166 |
| Net increase (decrease) in net assets resulting from operations | (1,657,076) | 81,601,263 |
| Distributions to shareholders from: | | |
| Net investment income: | | |
| Class A | (8,620,538) | (6,363,976) |
| Class B | (480,677) | (312,686) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 24,111,019 | 57,653,358 |
| Reinvestment of distributions | 8,620,538 | 6,363,976 |
| Cost of shares redeemed | (38,527,226) | (86,826,684) |
| Net increase (decrease) in net assets from Class A share transactions | (5,795,669) | (22,809,350) |
| **Class B** | | |
| Proceeds from shares sold | 2,642,781 | 19,706,198 |
| Reinvestment of distributions | 480,677 | 312,686 |
| Cost of shares redeemed | (1,626,772) | (13,535,303) |
| Net increase (decrease) in net assets from Class B share transactions | 1,496,686 | 6,483,581 |
| **Increase (decrease) in net assets** | (15,057,274) | 58,598,832 |
| Net assets at beginning of period | 568,020,559 | 509,421,727 |
| Net assets at end of period (including undistributed net investment income of $5,139,875 and $7,025,372, respectively) | **$ 552,963,285** | **$ 568,020,559** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 56,078,328 | 58,747,179 |
| Shares sold | 2,550,755 | 6,770,517 |
| Shares issued to shareholders in reinvestment of distributions | 946,272 | 763,983 |
| Shares redeemed | (4,113,910) | (10,203,351) |
| Net increase (decrease) in Class A shares | (616,883) | (2,668,851) |
| Shares outstanding at end of period | **55,461,445** | **56,078,328** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,699,485 | 2,910,661 |
| Shares sold | 281,159 | 2,359,763 |
| Shares issued to shareholders in reinvestment of distributions | 52,764 | 37,537 |
| Shares redeemed | (174,245) | (1,608,476) |
| Net increase (decrease) in Class B shares | 159,678 | 788,824 |
| Shares outstanding at end of period | **3,859,163** | **3,699,485** |

*The accompanying notes are an integral part of the financial statements.*

## International Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.50** | **$ 8.26** | **$ 6.52** | **$ 8.05** | **$ 14.26** | **$ 20.34** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .12 | .09 | .09 | .05 | .06 | .08 |
| Net realized and unrealized gain (loss) on investment transactions | (.14) | 1.26 | 1.70 | (1.52) | (3.97) | (4.24) |
| **Total from investment operations** | (.02) | 1.35 | 1.79 | (1.47) | (3.91) | (4.16) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.16) | (.11) | (.05) | (.06) | (.05) | (.09) |
| Net realized gains on investment transactions | — | — | — | — | (2.25) | (1.83) |
| **Total distributions** | (.16) | (.11) | (.05) | (.06) | (2.30) | (1.92) |
| **Net asset value, end of period** | **$ 9.32** | **$ 9.50** | **$ 8.26** | **$ 6.52** | **$ 8.05** | **$ 14.26** |
| Total Return (%) | (.21)** | 16.53 | 27.75 | (18.37) | (30.86) | (21.70) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 517 | 533 | 485 | 412 | 513 | 720 |
| Ratio of expenses before expense reductions (%) | 1.01* | 1.04 | 1.05 | 1.03 | 1.01[c] | .96 |
| Ratio of expenses after expense reductions (%) | 1.01* | 1.04 | 1.05 | 1.03 | 1.00[c] | .96 |
| Ratio of net investment income (loss) (%) | 2.61* | 1.05 | 1.32 | .73 | .64 | .48 |
| Portfolio turnover rate (%) | 58* | 73 | 119 | 123 | 105 | 79 |

### Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.48** | **$ 8.24** | **$ 6.50** | **$ 8.03** | **$ 14.19** | **$ 20.24** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[b] | .11 | .06 | .07 | .04 | .05 | .04 |
| Net realized and unrealized gain (loss) on investment transactions | (.15) | 1.27 | 1.71 | (1.53) | (3.94) | (4.22) |
| **Total from investment operations** | (.04) | 1.33 | 1.78 | (1.49) | (3.89) | (4.18) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.13) | (.09) | (.04) | (.04) | (.02) | (.04) |
| Net realized gains on investment transactions | — | — | — | — | (2.25) | (1.83) |
| **Total distributions** | (.13) | (.09) | (.04) | (.04) | (2.27) | (1.87) |
| **Net asset value, end of period** | **$ 9.31** | **$ 9.48** | **$ 8.24** | **$ 6.50** | **$ 8.03** | **$ 14.19** |
| Total Return (%) | (.43)[d]** | 16.24[d] | 27.52 | (18.62) | (30.81) | (21.89) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 36 | 35 | 24 | 8 | 3 | .77 |
| Ratio of expenses before expense reductions (%) | 1.40* | 1.38 | 1.32 | 1.28 | 1.26[c] | 1.21 |
| Ratio of expenses after expense reductions (%) | 1.37* | 1.35 | 1.32 | 1.28 | 1.25[c] | 1.21 |
| Ratio of net investment income (loss) (%) | 2.25* | .74 | 1.05 | .48 | .39 | .23 |
| Portfolio turnover rate (%) | 58* | 73 | 119 | 123 | 105 | 79 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *Based on average shares outstanding during the period.*

[c] *The ratios of operating expenses excluding costs incurred in connection with a fund complex reorganization before and after expense reductions were 1.00% and 1.00%, and 1.25% and 1.25% for Class A and Class B, respectively.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Health Sciences Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,011.70 | $ 1,010.10 |
| Expenses Paid per $1,000* | $ 4.34 | $ 6.18 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.48 | $ 1,018.65 |
| Expenses Paid per $1,000* | $ 4.36 | $ 6.21 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series I — Health Sciences Portfolio | .87% | 1.24% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Health Sciences Portfolio

Largely due to the strong performance of managed care stocks, Health Sciences Portfolio managed to post a positive return during a difficult period for health care stocks and the market in general. For the six-month period, the portfolio posted a total return of 1.25% (Class A shares, unadjusted for contract charges). In comparison, the S&P 500 Index returned –0.81% and the Goldman Sachs Healthcare Index returned 5.95%.

In the health care services sector, the portfolio's holdings in Caremark Rx, Inc. helped the portfolio's performance. As a provider of comprehensive drug benefit services, Caremark benefited from the growing popularity of mail-order drugs, generic drugs and specialty products such as biotechnology treatments. Humana Inc. and PacifiCare Health Systems, Inc., both of which are positioned to benefit from the changes to the Medicare laws, also produced strong gains during the quarter. While many biotech stocks fell during the six-month period, Genentech, Inc. was a stand out performer due to positive clinical results for three different drugs. On the negative side, the fund was hurt by positions in Biogen Idec, Inc. and Elan Corp. PLC (not held in the portfolio at the end of the reporting period) due to the withdrawal of a promising new drug for multiple sclerosis that encountered a serious, unexpected side effect.

A key event in 2006 will be the new Medicare prescription drug benefit. We think this will have a positive influence on the managed care companies and on most of the rest of the health care industry. We believe our focus on individual company research will enable us to build a portfolio of the most attractive companies within this dynamic and fast-growing industry.

James E. Fenger
*Lead Portfolio Manager*
Leefin Lai, CFA, CPA
*Portfolio Manager*
Thomas Bucher, CFA
*Consultant to the Portfolio*

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. The portfolio may focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Standard & Poor's 500 (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Goldman Sachs Healthcare Index is an unmanaged market-capitalization-weighted index of 114 stocks designed to measure the performance of companies in the health care sector.*

*Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Health Sciences Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 99% | 97% |
| Cash Equivalents | 1% | 3% |
| | 100% | 100% |

| **Industry Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Pharmaceuticals | 30% | 33% |
| Biotechnology | 23% | 27% |
| Medical Supply & Specialty | 19% | 17% |
| Health Care Services | 19% | 16% |
| Hospital Management | 5% | 4% |
| Life Sciences Equipment | 4% | 3% |
| | 100% | 100% |

*Asset allocation and industry diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 39. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month. Please call 1-800-778-1482.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Health Sciences Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.3%** | | |
| **Health Care 98.3%** | | |
| **Biotechnology 23.0%** | | |
| Actelion Ltd.* | 6,000 | 622,830 |
| Amgen, Inc.* | 85,350 | 5,160,261 |
| Amylin Pharmaceuticals, Inc.* (c) | 33,400 | 699,062 |
| Biogen Idec, Inc.* | 48,920 | 1,685,294 |
| Celgene Corp.* | 43,000 | 1,753,110 |
| Discovery Laboratories, Inc.* (c) | 98,800 | 720,252 |
| DOV Pharmaceutical, Inc.* | 61,200 | 1,141,992 |
| Encysive Pharmaceuticals, Inc.* | 39,700 | 429,157 |
| Eyetech Pharmaceuticals, Inc.* | 16,600 | 209,824 |
| Gen-Probe, Inc.* | 31,900 | 1,155,737 |
| Genentech, Inc.* | 37,800 | 3,034,584 |
| Genzyme Corp.* | 43,800 | 2,631,942 |
| Gilead Sciences, Inc.* | 59,000 | 2,595,410 |
| GPC Biotech AG (ADR)* (c) | 60,512 | 682,575 |
| Keryx Biopharmaceuticals, Inc.* | 18,800 | 248,160 |
| MedImmune, Inc.* | 21,100 | 563,792 |
| MGI Pharma, Inc.* | 79,500 | 1,729,920 |
| Millennium Pharmaceuticals, Inc.* | 56,700 | 525,609 |
| Myogen, Inc.* (c) | 22,500 | 157,275 |
| OSI Pharmaceuticals, Inc.* | 15,200 | 621,224 |
| Pharmion Corp.* | 25,400 | 589,534 |
| Rigel Pharmaceuticals, Inc.* | 74,600 | 1,486,032 |
| Telik, Inc.* | 41,400 | 673,164 |
| | | **29,116,740** |
| **Health Care Services 18.6%** | | |
| Aetna, Inc. | 32,400 | 2,683,368 |
| Allscripts Healthcare Solutions, Inc.* | 14,600 | 242,506 |
| Caremark Rx, Inc.* | 67,200 | 2,991,744 |
| Covance, Inc.* | 26,200 | 1,175,594 |
| DaVita, Inc.* | 18,200 | 827,736 |
| Fresenius Medical Care AG (c) | 11,300 | 964,633 |
| Humana, Inc.* | 39,100 | 1,553,834 |
| Medco Health Solutions, Inc.* | 9,484 | 506,066 |
| PacifiCare Health Systems, Inc.* | 20,800 | 1,486,160 |
| PSS World Medical, Inc.* | 49,400 | 615,030 |
| UnitedHealth Group, Inc. | 104,200 | 5,432,988 |
| WellPoint, Inc.* | 70,700 | 4,923,548 |
| | | **23,403,207** |
| **Hospital Management 4.5%** | | |
| Community Health Systems, Inc.* | 65,600 | 2,479,024 |
| Kindred Healthcare, Inc.* | 32,700 | 1,295,247 |
| Manor Care, Inc. | 20,800 | 826,384 |
| Triad Hospitals, Inc.* | 19,400 | 1,060,016 |
| | | **5,660,671** |
| **Life Sciences Equipment 3.8%** | | |
| Charles River Laboratories International, Inc.* | 40,000 | 1,930,000 |
| Invitrogen Corp.* | 11,300 | 941,177 |
| PerkinElmer, Inc. | 51,800 | 979,020 |
| Serologicals Corp.* | 41,200 | 875,500 |
| | | **4,725,697** |
| **Medical Supply & Specialty 18.9%** | | |
| Baxter International, Inc. | 42,400 | 1,573,040 |
| Biomet, Inc. | 27,400 | 949,136 |
| C.R. Bard, Inc. | 16,000 | 1,064,160 |
| Cardinal Health, Inc. | 38,900 | 2,239,862 |
| Cooper Companies, Inc. | 23,900 | 1,454,554 |
| Cytyc Corp.* | 56,200 | 1,239,772 |
| Elekta AB "B"* | 38,000 | 1,574,170 |
| Fisher Scientific International, Inc.* | 38,200 | 2,479,180 |
| Guidant Corp. | 18,400 | 1,238,320 |
| I-Flow Corp.* | 33,600 | 559,104 |
| IntraLase Corp.* | 24,100 | 472,842 |
| Kyphon, Inc.* | 33,800 | 1,175,902 |
| Medtronic, Inc. | 40,300 | 2,087,137 |
| Nobel Biocare Holding AG | 7,500 | 1,517,882 |
| Smith & Nephew PLC* | 100,365 | 987,859 |
| St. Jude Medical, Inc.* | 28,900 | 1,260,329 |
| Stryker Corp. | 17,600 | 837,056 |
| Zimmer Holdings, Inc.* | 14,600 | 1,112,082 |
| | | **23,822,387** |
| **Pharmaceuticals 29.5%** | | |
| Abbott Laboratories | 84,800 | 4,156,048 |
| Allergan, Inc. | 7,900 | 673,396 |
| Astellas Pharma, Inc. | 46,000 | 1,569,812 |
| AstraZeneca PLC | 26,135 | 1,079,982 |
| Barrier Therapeutics, Inc.* | 45,600 | 361,608 |
| Eli Lilly & Co. | 21,000 | 1,169,910 |
| IVAX Corp.* | 68,525 | 1,473,288 |
| Johnson & Johnson | 29,700 | 1,930,500 |
| Medicis Pharmaceutical Corp. "A" (c) | 26,700 | 847,191 |
| Novartis AG (Registered) | 70,996 | 3,372,093 |
| Pfizer, Inc. | 157,340 | 4,339,437 |
| Roche Holding AG | 23,798 | 3,001,153 |
| Sanofi-Aventis (c) | 28,050 | 2,296,414 |
| Schering-Plough Corp. | 111,600 | 2,127,095 |
| Schwarz Pharma AG | 28,200 | 1,278,597 |
| Sepracor, Inc.* | 22,700 | 1,362,227 |
| Shire Pharmaceuticals Group PLC (ADR) | 24,800 | 813,440 |
| Teva Pharmaceutical Industries Ltd. (ADR) | 32,100 | 999,594 |
| Watson Pharmaceuticals, Inc.* | 13,000 | 384,280 |
| Wyeth | 89,700 | 3,991,650 |
| | | **37,227,715** |
| **Total Common Stocks** (Cost $96,936,168) | | **123,956,417** |
| **Securities Lending Collateral 4.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $5,322,136) | 5,322,136 | **5,322,136** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 0.7%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $910,482) | 910,482 | **910,482** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $103,168,786) (a) | 103.2 | **130,189,035** |
| **Other Assets and Liabilities, Net** | (3.2) | **(4,017,803)** |
| **Net Assets** | 100.0 | **126,171,232** |

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $103,698,197. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $26,490,838. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $29,870,676 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,379,838.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $5,095,902, which is 4.0% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*Purchases and sales of investment securities (excluding short-term investments) for the six months ended June 30, 2005, aggregated $28,647,149 and $31,331,968, respectively.*

*At December 31, 2004, the Health Sciences Portfolio had a net tax basis capital loss carryforward of approximately $5,204,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2010 ($2,962,000) and December 31, 2011 ($2,242,000), the respective expiration dates, whichever occurs first.*

*The accompanying notes are an integral part of the financial statements.*

## Health Sciences Portfolio

### Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $96,936,168) — including $5,095,902 of securities loaned | $ | 123,956,417 |
| Investment in Scudder Daily Assets Fund Institutional (cost $5,322,136)* | | 5,322,136 |
| Investment in Scudder Cash Management QP Trust (cost $910,482) | | 910,482 |
| Total investments in securities, at value (cost $103,168,786) | | 130,189,035 |
| Cash | | 10,000 |
| Foreign currency, at value (cost $331,913) | | 317,638 |
| Receivable for investments sold | | 1,134,289 |
| Dividends receivable | | 7,671 |
| Interest receivable | | 13,880 |
| Receivable for Portfolio shares sold | | 11,460 |
| Foreign taxes recoverable | | 12,271 |
| Other assets | | 2,682 |
| Total assets | | 131,698,926 |
| **Liabilities** | | |
| Payable upon return of securities loaned | | 5,322,136 |
| Payable for Portfolio shares redeemed | | 89,264 |
| Accrued management fee | | 75,234 |
| Accrued distribution service fees (Class B) | | 6,286 |
| Other accrued expenses and payables | | 34,774 |
| Total liabilities | | 5,527,694 |
| **Net assets, at value** | **$** | **126,171,232** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Accumulated net investment loss | | (98,889) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 27,020,249 |
| Foreign currency related transactions | | (14,560) |
| Accumulated net realized gain (loss) | | (4,327,028) |
| Paid-in capital | | 103,591,460 |
| **Net assets, at value** | **$** | **126,171,232** |
| **Net Asset Value** | | |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($105,401,833 ÷ 8,678,602 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | $ | 12.15 |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($20,769,399 ÷ 1,726,666 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized) | $ | 12.03 |

* *Represents collateral on securities loaned.*

### Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends (net of foreign taxes withheld of $31,525) | $ | 419,467 |
| Interest — Scudder Cash Management QP Trust | | 35,735 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 16,507 |
| Total Income | | 471,709 |
| Expenses: | | |
| Management fee | | 461,082 |
| Custodian and accounting fees | | 45,170 |
| Distribution service fees (Class B) | | 24,880 |
| Record keeping fees (Class B) | | 12,485 |
| Auditing | | 17,806 |
| Legal | | 140 |
| Trustees' fees and expenses | | 2,910 |
| Reports to shareholders | | 2,612 |
| Other | | 4,330 |
| Total expenses, before expense reductions | | 571,415 |
| Expense reductions | | (1,100) |
| Total expenses, after expense reductions | | 570,315 |
| **Net investment income (loss)** | | **(98,606)** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 1,596,997 |
| Foreign currency related transactions | | (12,360) |
| | | 1,584,637 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (108,912) |
| Foreign currency related transactions | | (15,686) |
| | | (124,598) |
| **Net gain (loss) on investment transactions** | | **1,460,039** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **1,361,433** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (98,606) | $ (424,014) |
| Net realized gain (loss) on investment transactions | 1,584,637 | 5,571,554 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (124,598) | 5,777,481 |
| Net increase (decrease) in net assets resulting from operations | 1,361,433 | 10,925,021 |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 3,485,819 | 14,603,543 |
| Cost of shares redeemed | (8,062,813) | (16,500,791) |
| Net increase (decrease) in net assets from Class A share transactions | (4,576,994) | (1,897,248) |
| **Class B** | | |
| Proceeds from shares sold | 1,925,464 | 9,015,887 |
| Cost of shares redeemed | (1,872,298) | (1,312,710) |
| Net increase (decrease) in net assets from Class B share transactions | 53,166 | 7,703,177 |
| **Increase (decrease) in net assets** | (3,162,395) | 16,730,950 |
| Net assets at beginning of period | 129,333,627 | 112,602,677 |
| Net assets at end of period (including accumulated net investment loss of $98,889 and $283, respectively) | **$ 126,171,232** | **$ 129,333,627** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 9,070,686 | 9,253,001 |
| Shares sold | 293,404 | 1,284,769 |
| Shares redeemed | (685,488) | (1,467,084) |
| Net increase (decrease) in Class A shares | (392,084) | (182,315) |
| Shares outstanding at end of period | **8,678,602** | **9,070,686** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,720,377 | 1,034,876 |
| Shares sold | 165,570 | 802,351 |
| Shares redeemed | (159,281) | (116,850) |
| Net increase (decrease) in Class B shares | 6,289 | 685,501 |
| Shares outstanding at end of period | **1,726,666** | **1,720,377** |

*The accompanying notes are an integral part of the financial statements.*

## Health Sciences Portfolio

### Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 12.00** | **$ 10.95** | **$ 8.19** | **$ 10.65** | **$ 10.00** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[d] | (.01) | (.03) | (.02) | (.03) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | .16 | 1.08 | 2.78 | (2.43) | .67 |
| **Total from investment operations** | .15 | 1.05 | 2.76 | (2.46) | .65 |
| **Net asset value, end of period** | **$ 12.15** | **$ 12.00** | **$ 10.95** | **$ 8.19** | **$ 10.65** |
| Total Return (%) | 1.25** | 9.59 | 33.70 | (23.10) | 6.50[e]** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 105 | 109 | 101 | 69 | 56 |
| Ratio of expenses before expense reductions (%) | .87* | .88 | .87 | .91 | 1.40* |
| Ratio of expenses after expense reductions (%) | .87* | .88 | .87 | .91 | .95* |
| Ratio of net investment income (loss) (%) | (.10)* | (.29) | (.24) | (.38) | (.25)* |
| Portfolio turnover rate (%) | 47* | 77 | 64 | 53 | 34* |

### Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[c] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 11.91** | **$ 10.91** | **$ 8.19** | **$ 8.09** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[d] | (.03) | (.08) | (.07) | (.04) |
| Net realized and unrealized gain (loss) on investment transactions | .15 | 1.08 | 2.79 | .14 |
| **Total from investment operations** | .12 | 1.00 | 2.72 | .10 |
| **Net asset value, end of period** | **$ 12.03** | **$ 11.91** | **$ 10.91** | **$ 8.19** |
| Total Return (%) | 1.01** | 9.17 | 33.21 | 1.24** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 21 | 20 | 11 | .3 |
| Ratio of expenses (%) | 1.24* | 1.27 | 1.26 | 1.16* |
| Ratio of net investment income (loss) (%) | (.47)* | (.68) | (.63) | (.92)* |
| Portfolio turnover rate (%) | 47* | 77 | 64 | 53 |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period May 1, 2001 (commencement of operations of Class A shares) to December 31, 2001.*
[c] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
[d] *Based on average shares outstanding during the period.*
[e] *Total return would have been lower had certain expenses not been reduced.*
* *Annualized* ** *Not annualized*

## A. Significant Accounting Policies

Scudder Variable Series I (the "Series") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, registered management investment company organized as a Massachusetts business trust. The Series consists of seven diversified portfolios: Money Market Portfolio, Bond Portfolio, Growth and Income Portfolio, Capital Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio (individually or collectively hereinafter referred to as a "Portfolio" or the "Portfolios"). These financial statements report on five Portfolios, which consist of the Growth and Income Portfolio, Capital Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

**Multiple Classes of Shares of Beneficial Interest.** The Series offers two classes of shares (Class A shares and Class B shares) for each of the Portfolios. Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares except that each class bears certain expenses unique to that class (including the applicable 12b-1 distribution fee and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Series' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Series in the preparation of the financial statements for its Portfolios.

**Security Valuation.** Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the Series. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees. The Series may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

**Securities Lending.** Each Portfolio may lend securities to financial institutions. The Portfolio retains beneficial ownership of the securities it has loaned and continues to receive interest and dividends paid by the securities and to participate in any changes in their market value. The Portfolio requires the borrowers of the securities to maintain collateral with the Portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The Portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to an Exemptive Order issued by the SEC. The Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of fees paid to a lending agent. Either the Portfolio or the borrower may terminate the loan. The Portfolio is subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments. During the six months ended June 30, 2005, Growth and Income Portfolio, Capital Growth Portfolio, Global Discovery Portfolio, International Portfolio and Health Sciences Portfolio loaned securities.

**Options.** An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Portfolio if the option is exercised. Each Portfolio may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the Portfolio's obligation under an exchange traded written option or investment in a purchased option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid and asked prices are available. Over-the-counter written or purchased options are valued using dealer supplied quotations. Gain or loss is recognized when the option contract expires or is closed.

If the Portfolio writes a covered call option, the Portfolio foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Portfolio writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Portfolio's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Portfolio's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

**Foreign Currency Translations.** The books and records of the Portfolios are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies, and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

**Repurchase Agreements.** Each Portfolio may enter into repurchase agreements with certain banks and broker/dealers whereby the Portfolio, through its custodian or sub-custodian bank, receives delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodial bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the Portfolio has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Portfolio's claims on the collateral may be subject to legal proceedings.

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract (forward currency contract) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Portfolios may enter into forward currency contracts in order to hedge their exposure to changes in foreign currency exchange rates on their foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the Portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

Global Discovery Portfolio and International Portfolio each entered into forward foreign currency exchange contracts during the six months ended June 30, 2005.

**When-Issued/Delayed Delivery Securities.** Each Portfolio may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time a Portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the Portfolio until payment takes place. At the time the Portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Taxes.** Each Portfolio is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is each Portfolio's policy to comply with the requirements of the Internal Revenue Code, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares. Accordingly, the Portfolios paid no federal income taxes and no federal income tax provision was required.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which each Portfolio invests, the Series will provide for foreign taxes, and where appropriate, deferred foreign taxes.

**Distribution of Income and Gains.** Each Portfolio will declare and distribute dividends from their net investment income, if any, in April, although additional distributions may be made if necessary. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to each Portfolio if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in forward foreign currency exchange contracts, passive foreign investment companies, post October loss deferrals, non-taxable distributions and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, each Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

The tax character of current year distributions, if any, will be determined at the end of the current fiscal year.

**Contingencies.** In the normal course of business, each Portfolio may enter into contracts with service providers that contain general indemnification clauses. Each Portfolio's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against each Portfolio that have not yet been made. However, based on experience, each Portfolio expects the risk of loss to be remote.

**Expenses.** Each Portfolio is charged for those expenses which are directly attributable to it, such as management fees and custodian fees, while other expenses, such as reports to shareholders and legal fees, are allocated among the Portfolios.

**Other.** Each Portfolio's investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

## B. Related Parties

Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolios in accordance with their investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Portfolios. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement.

Under the Series' Management Agreement with the Advisor, the Portfolios pay a monthly investment management fee, based on the average daily net assets of each Portfolio, payable monthly, at the annual rates shown below:

| Portfolio | Annual Management Fee Rate |
|---|---|
| Global Discovery Portfolio | 0.975% |

For the period January 1, 2005 through April 30, 2005, the Growth and Income Portfolio paid the Advisor a monthly investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rate shown below:

| Portfolio | Annual Management Fee Rate |
|---|---|
| Growth and Income Portfolio | 0.475% |

Effective May 1, 2005, the Growth and Income Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| first $250 million | 0.475% |
| next $750 million | 0.450% |
| over $1 billion | 0.425% |

For the six months ended June 30, 2005, the Growth and Income Portfolio waived a portion of its management fees pursuant to the Management Agreement aggregating $5,171 and the amount charged aggregated $553,433, which was equivalent to an annual effective rate of 0.469% of the Portfolio's average daily net assets.

From January 1, 2005 through April 30, 2005, the Capital Growth Portfolio paid the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| first $500 million | 0.475% |
| next $500 million | 0.450% |
| over $1 billion | 0.425% |

Effective May 1, 2005, the Capital Growth Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| first $250 million | 0.475% |
| next $750 million | 0.450% |
| over $1 billion | 0.425% |

For the six months ended June 30, 2005, the Capital Growth Portfolio incurred a management fee equivalent to an annualized effective rate of 0.463% of the Portfolio's average daily net assets.

International Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| first $500 million | 0.875% |
| over $500 million | 0.725% |

For the six months ended June 30, 2005, International Portfolio incurred a management fee equivalent to an annualized effective rate of 0.858% of the Portfolio's average daily net assets. DeAMIS serves as subadvisor with respect to the investment and reinvestment of assets in the International Portfolio. The Advisor compensates DeAMIS out of the management fee it receives from the International Portfolio.

The Health Sciences Portfolio pays the Advisor a graduated investment management fee, based on the average daily net assets of the Portfolio, payable monthly, at the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| first $250 million | 0.750% |
| next $750 million | 0.725% |
| next $1.5 billion | 0.700% |
| next $2.5 billion | 0.680% |
| next $2.5 billion | 0.650% |
| next $2.5 billion | 0.640% |
| next $2.5 billion | 0.630% |
| over $12.5 billion | 0.620% |

For the six months ended June 30, 2005, Health Sciences Portfolio incurred a management fee equivalent to an annualized effective rate of 0.750% of the Portfolio's average daily net assets.

For the period May 1, 2004 through April 30, 2006, the Advisor and certain of its subsidiaries have agreed to limit their fees and reimburse expenses of each class of the Health Sciences Portfolio to the extent necessary to maintain the annualized expenses of Class A at 0.95% and Class B at 1.35%.

In addition, for the period January 1, 2005 through April 30, 2006, the Advisor agreed to waive a portion of its fee to the extent necessary to maintain the operating expenses of each class as follows:

| Portfolio | Operating Expense Ratio |
|---|---|
| Global Discovery Portfolio Class A | 1.24% |
| Global Discovery Portfolio Class B | 1.24% |
| International Portfolio Class A | 1.37% |
| International Portfolio Class B | 1.37% |

Also, for the period January 1, 2005 through April 30, 2005, the Advisor agreed to waive a portion of its fee to the extent necessary to maintain the operating expenses of each class as follows:

| Portfolio | Operating Expense Ratio |
|---|---|
| Capital Growth Portfolio Class A | 1.08% |
| Capital Growth Portfolio Class B | 1.08% |
| Growth and Income Portfolio Class A | 1.09% |
| Growth and Income Portfolio Class B | 1.09% |

Effective May 1, 2005 through April 30, 2008, the Advisor agreed to waive a portion of its fee to the extent necessary to maintain the operating expenses of each class as follows:

| Portfolio | Operating Expense Ratio |
|---|---|
| Capital Growth Portfolio Class A | 0.49% |
| Capital Growth Portfolio Class B | 0.86% |
| Growth and Income Portfolio Class A | 0.54% |
| Growth and Income Portfolio Class B | 0.89% |

Under these arrangements, the Advisor reimbursed International Portfolio and Global Discovery Portfolio $4,694 and $29,843, respectively, for expenses.

**Service Provider Fees.** Scudder Fund Accounting Corporation ("SFAC"), a subsidiary of the Advisor, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of each portfolio. In turn, SFAC has delegated certain fund accounting functions to a third-party service provider. For the six months ended June 30, 2005, SFAC received the following fee for its services for the following portfolios:

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Growth and Income Portfolio | 35,770 | 6,274 |
| Capital Growth Portfolio | 59,352 | 1,919 |
| Global Discovery Portfolio | 91,995 | 1,955 |
| International Portfolio | 178,520 | 26,579 |
| Health Sciences Portfolio | 34,532 | 7,293 |

Scudder Investments Service Company, an affiliate of the Advisor, is the transfer and dividend-paying agent of the Series. These affiliated entities have in turn entered into various agreements with third-party service providers to provide these services.

Scudder Distributors, Inc. ("SDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, SDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, SDI remits these fees to the Participating Insurance Companies for various costs incurred or paid by these companies in connection with marketing and distribution of Class B shares. These fees are detailed in each Portfolio's Statement of Operations.

**Typesetting and Filing Service Fees.** Under an agreement with DeIM, the Advisor is compensated for providing typesetting and regulatory filing services to the Portfolios. For the six months ended June 30, 2005, the amount charged to the Portfolios by DeIM included in reports to shareholders were as follows:

| Portfolio | Amount ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Growth and Income Portfolio | 4,602 | 3,055 |
| Capital Growth Portfolio | 4,602 | 3,055 |
| Global Discovery Portfolio | 4,602 | 3,055 |
| International Portfolio | 4,602 | 3,055 |
| Health Sciences Portfolio | 4,602 | 3,055 |

**Trustees' Fees and Expenses.** The Portfolios pay each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings. Allocated Trustees' fees and expenses for each Portfolio for the six months ended June 30, 2005 are detailed in each Portfolio's Statement of Operations.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the Series may invest in the Scudder Cash Management QP Trust (the "QP Trust"), and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

## C. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, delayed settlements and their prices more volatile than those of comparable securities in the United States of America.

## D. Expense Reductions

For the six months ended June 30, 2005, the Advisor agreed to reimburse the Portfolios, which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider as follows:

| Portfolio | Amount ($) |
|---|---|
| Growth and Income Portfolio | 1,375 |
| Capital Growth Portfolio | 3,374 |
| Global Discovery Portfolio | 1,595 |
| International Portfolio | 2,787 |
| Health Sciences Portfolio | 1,076 |

In addition, Growth and Income Portfolio, Capital Growth Portfolio and Health Sciences Portfolio have entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Portfolios' expenses. During the six months ended June 30, 2005, the custodian fees were reduced as follows:

| Portfolio | Custody Credits ($) |
|---|---|
| Growth and Income Portfolio | 7,420 |
| Capital Growth Portfolio | 116 |
| Health Sciences Portfolio | 24 |

## E. Ownership of the Portfolios

At the end of the period, the beneficial ownership in the Portfolios was as follows:

**Growth and Income Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 32%, 31% and 12%, respectively. Four Participating Insurance Companies were owners of record of 66%, 12%, 11% and 10%, respectively, of the total outstanding Class B shares of the Portfolio.

**Capital Growth Portfolio:** Five Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 29%, 18%, 12%, 11% and 10%, respectively. One Participating Insurance Company was owner of record of 85% of the total outstanding Class B shares of the Portfolio.

**Global Discovery Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 57% and 21%, respectively. Two Participating Insurance Companies were owners of record of 64% and 19%, respectively, of the total outstanding Class B shares of the Portfolio.

**International Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 23%, 19% and 13%, respectively. One Participating Insurance Company was owner of record of 84% of the total outstanding Class B shares of the Portfolio.

**Health Sciences Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 78% and 22%, respectively. Two Participating Insurance Companies were owners of record of 79% and 11%, respectively, of the total outstanding Class B shares of the Portfolio.

## F. Line of Credit

The Series and several other affiliated funds (the "Participants") share in a $1.1 billion revolving credit facility administered by J.P. Morgan Chase Bank for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. Each Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

## G. Regulatory Matters and Litigation

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations ("inquiries") into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds' investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund's investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

### H. Acquisition of Assets

On April 29, 2005, the Growth and Income Portfolio acquired all of the net assets of SVS Focus Value+Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 7,630,195 Class A shares and 797,917 Class B shares of the SVS Focus Value+Growth Portfolio, respectively, for 11,366,540 Class A shares and 1,191,379, respectively, outstanding on April 29, 2005. SVS Focus Value+Growth Portfolio's net assets at that date of $109,496,717, including $2,627,352 of net unrealized appreciation, were combined with those of the Growth and Income Portfolio. The aggregate net assets of the Growth and Income Portfolio immediately before the acquisition were $196,724,411. The combined net assets of the Growth and Income Portfolio immediately following the acquisition were $306,221,128.

On April 29, 2005, the Capital Growth Portfolio acquired all of the net assets of Scudder Growth Portfolio and SVS Eagle Focused Large Cap Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 13,922,674 Class A shares and 864,495 Class B shares of the Scudder Growth Portfolio and 9,460,787 Class A shares and 3,575,054 Class B shares of the SVS Eagle Focused Large Cap Growth Portfolio, respectively, for 17,164,853 Class A shares and 1,066,401 Class B shares and 5,035,742 Class A shares and 1,896,817 of Class B shares of Capital Growth Portfolio, respectively, outstanding on April 29, 2005. Scudder Growth Portfolio and SVS Eagle Focused Large Cap Growth Portfolio's net assets at that date of $275,619,467 and $104,748,174, respectively, including $53,072,812 and $4,059,393, respectively, of net unrealized appreciation, were combined with those of the Capital Growth Portfolio. The aggregate net assets of the Capital Growth Portfolio immediately before the acquisition were $680,032,918. The combined net assets of the Capital Growth Portfolio immediately following the acquisition were $1,060,400,559.

# Proxy Voting

A description of the series' policies and procedures for voting proxies for portfolio securities and information about how the series voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — scudder.com (type "proxy voting" in the search field) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the series' policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

## About the Fund's Advisor

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

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SCUDDER
INVESTMENTS

A Member of
Deutsche Asset Management

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

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SCUDDER
INVESTMENTS

Semiannual report to
shareholders for the six months
ended June 30, 2005

# Scudder Variable Series II

Scudder Aggressive Growth Portfolio
Scudder Blue Chip Portfolio
Scudder Fixed Income Portfolio
Scudder Global Blue Chip Portfolio
Scudder Government & Agency Securities Portfolio
Scudder High Income Portfolio
Scudder International Select Equity Portfolio
Scudder Large Cap Value Portfolio
Scudder Money Market Portfolio
Scudder Small Cap Growth Portfolio
Scudder Strategic Income Portfolio
Scudder Technology Growth Portfolio
Scudder Total Return Portfolio
SVS Davis Venture Value Portfolio
SVS Dreman Financial Services Portfolio
SVS Dreman High Return Equity Portfolio
SVS Dreman Small Cap Value Portfolio
SVS Index 500 Portfolio
SVS INVESCO Dynamic Growth Portfolio
SVS Janus Growth and Income Portfolio
SVS Janus Growth Opportunities Portfolio
SVS Oak Strategic Equity Portfolio
SVS Turner Mid Cap Growth Portfolio

# Contents

**Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:**

## Scudder Aggressive Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,052.80 | $ 1,051.20 |
| Expenses Paid per $1,000* | $ 4.84 | $ 6.76 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.08 | $ 1,018.20 |
| Expenses Paid per $1,000* | $ 4.76 | $ 6.66 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Aggressive Growth Portfolio | .95% | 1.33% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Aggressive Growth Portfolio

During the first quarter of 2005, a strong, low-inflation economic environment favored mid- and large-cap stocks over small cap stocks. In the second quarter, however, mixed economic data suggested that growth may be slowing. During the second quarter, small-cap stocks came to the fore as surging oil prices led investors to move into smaller, specialized companies and away from large companies.

In a volatile period for the broad market, the portfolio posted a positive return and handily outperformed its benchmark. For its most recent semiannual period, the portfolio returned 5.28% (Class A shares, unadjusted for contract charges), compared with the −1.88% return of the Russell 3000 Growth Index.

The biggest contributor to the portfolio's return over the six-month period was stock selection, particularly within the health care and consumer discretionary sectors. The portfolio also benefited from strong stock selection in financials. Energy was the strongest-performing sector within the Russell 3000 Growth Index by a wide margin; our slight overweight in energy contributed positively to performance. However, our overweight in financials detracted slightly from performance. Going forward, the managers will continue to adhere to their fundamental, valuation-sensitive investment process, and they are optimistic that the process will continue to work well in the current market environment.

Samuel A. Dedio
Robert S. Janis

Co-Lead Portfolio Managers
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

Portfolio returns during the period reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 3000 Growth Index is an unmanaged, capitalization-weighted index containing the growth stocks in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

# Portfolio Summary

## Scudder Aggressive Growth Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 98% | 97% |
| Cash Equivalents | 2% | 3% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Health Care | 32% | 26% |
| Information Technology | 25% | 25% |
| Consumer Discretionary | 17% | 17% |
| Financials | 10% | 13% |
| Energy | 7% | 2% |
| Consumer Staples | 3% | 5% |
| Telecommunication Services | 3% | 2% |
| Industrials | 2% | 5% |
| Materials | 1% | 5% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 6. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Aggressive Growth Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 97.5%** | | |
| **Consumer Discretionary 16.6%** | | |
| **Hotels Restaurants & Leisure 5.0%** | | |
| Harrah's Entertainment, Inc. | 8,400 | 605,388 |
| Station Casinos, Inc. | 17,400 | 1,155,360 |
| The Cheesecake Factory, Inc.* (c) | 35,000 | 1,215,550 |
| | | **2,976,298** |
| **Specialty Retail 6.8%** | | |
| Aeropostale, Inc.* | 40,300 | 1,354,080 |
| Chico's FAS, Inc.* | 48,400 | 1,659,152 |
| Urban Outfitters, Inc.* (c) | 18,500 | 1,048,765 |
| | | **4,061,997** |
| **Textiles, Apparel & Luxury Goods 4.8%** | | |
| Polo Ralph Lauren Corp. (c) | 30,600 | 1,319,166 |
| Quicksilver, Inc.* | 94,300 | 1,506,914 |
| | | **2,826,080** |
| **Consumer Staples 2.8%** | | |
| **Beverages 1.4%** | | |
| Constellation Brands, Inc. "A"* | 28,000 | **826,000** |
| **Household Products 1.4%** | | |
| Jarden Corp.* (c) | 15,400 | **830,368** |
| **Energy 7.1%** | | |
| **Energy Equipment & Services 2.3%** | | |
| BJ Services Co. (c) | 12,400 | 650,752 |
| Rowan Companies, Inc. | 23,200 | 689,272 |
| | | **1,340,024** |
| **Oil, Gas & Consumable Fuels 4.8%** | | |
| Bois d'Arc Energy, Inc.* | 12,500 | 184,375 |
| Peabody Energy Corp. | 30,500 | 1,587,220 |
| Ultra Petroleum Corp.* (c) | 36,600 | 1,111,176 |
| | | **2,882,771** |
| **Financials 9.5%** | | |
| **Capital Markets 7.4%** | | |
| E*TRADE Financial Corp.* | 89,900 | 1,257,701 |
| Legg Mason, Inc. | 18,750 | 1,952,062 |
| Lehman Brothers Holdings, Inc. | 6,500 | 645,320 |
| The Goldman Sachs Group, Inc. | 5,500 | 561,110 |
| | | **4,416,193** |
| **Diversified Financial Services 2.1%** | | |
| Affiliated Managers Group, Inc.* (c) | 8,800 | 601,304 |
| Citigroup, Inc. | 13,900 | 642,597 |
| | | **1,243,901** |
| **Health Care 31.0%** | | |
| **Biotechnology 7.9%** | | |
| Amgen, Inc.* | 15,100 | 912,946 |
| Celgene Corp.* (c) | 42,300 | 1,724,571 |
| Charles River Laboratories International, Inc.* | 20,800 | 1,003,600 |
| Genzyme Corp.* | 17,800 | 1,069,602 |
| | | **4,710,719** |

| | Shares | Value ($) |
|---|---|---|
| **Health Care Equipment & Supplies 4.7%** | | |
| C.R. Bard, Inc. | 17,600 | 1,170,576 |
| Fisher Scientific International, Inc.* | 12,200 | 791,780 |
| Zimmer Holdings, Inc.* | 10,700 | 815,019 |
| | | **2,777,375** |
| **Health Care Providers & Services 16.0%** | | |
| Aetna, Inc. | 16,200 | 1,341,684 |
| AMERIGROUP Corp.* (c) | 29,100 | 1,169,820 |
| Community Health Systems, Inc.* | 32,700 | 1,235,733 |
| Coventry Health Care, Inc.* | 15,900 | 1,124,925 |
| DaVita, Inc.* | 26,000 | 1,182,480 |
| Omnicare, Inc. | 28,700 | 1,217,741 |
| Triad Hospitals, Inc.* | 22,400 | 1,223,936 |
| UnitedHealth Group, Inc. | 19,400 | 1,011,516 |
| | | **9,507,835** |
| **Pharmaceuticals 2.4%** | | |
| Johnson & Johnson | 21,700 | **1,410,500** |
| **Industrials 2.1%** | | |
| **Machinery** | | |
| Caterpillar, Inc. | 7,500 | 714,825 |
| Joy Global, Inc. | 16,000 | 537,440 |
| | | **1,252,265** |
| **Information Technology 24.3%** | | |
| **Communications Equipment 2.2%** | | |
| Comverse Technologies, Inc.* | 54,400 | **1,286,560** |
| **Computers & Peripherals 7.2%** | | |
| Avid Technology, Inc.* (c) | 19,100 | 1,017,648 |
| Dell, Inc.* | 33,000 | 1,303,830 |
| NCR Corp.* | 32,600 | 1,144,912 |
| QLogic Corp.* | 25,300 | 781,011 |
| | | **4,247,401** |
| **Internet Software & Services 3.4%** | | |
| Google, Inc. "A"* | 3,500 | 1,029,525 |
| VeriSign, Inc.* | 33,500 | 963,460 |
| | | **1,992,985** |
| **Semiconductors & Semiconductor Equipment 5.5%** | | |
| Broadcom Corp. "A"* | 31,700 | 1,125,667 |
| International Rectifier Corp.* | 21,800 | 1,040,296 |
| Linear Technology Corp. | 30,800 | 1,130,052 |
| | | **3,296,015** |
| **Software 6.0%** | | |
| Activision, Inc.* | 37,800 | 624,456 |
| Business Objects SA (ADR)* (c) | 37,800 | 994,140 |
| Cognos, Inc.* | 22,600 | 771,564 |
| Microsoft Corp. | 23,600 | 586,224 |
| Symantec Corp.* | 28,400 | 617,416 |
| | | **3,593,800** |
| **Materials 1.3%** | | |
| **Containers & Packaging** | | |
| Packaging Corp. of America | 36,200 | **762,010** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Telecommunication Services 2.8%** | | |
| **Diversified Telecommunication Services 0.3%** | | |
| NeuStar, Inc. "A"* | 6,100 | **156,160** |
| **Wireless Telecommunication Services 2.5%** | | |
| Nextel Partners, Inc. "A"* | 59,400 | **1,495,099** |
| **Total Common Stocks** (Cost $46,211,643) | | **57,892,356** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 14.3%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $8,466,153) | 8,466,153 | **8,466,153** |

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 1.8%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $1,055,713) | 1,055,713 | **1,055,713** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $55,733,509) (a) | 113.6 | **67,414,222** |
| **Other Assets and Liabilities, Net** | (13.6) | **(8,073,637)** |
| **Net Assets** | 100.0 | **59,340,585** |

## Notes to Scudder Aggressive Growth Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $55,765,701. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $11,648,521. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $12,406,232 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $757,711.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $8,221,689, which is 13.9% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $46,211,643) — including $8,221,689 of securities loaned | $ | 57,892,356 |
| Investment in Scudder Daily Assets Fund Institutional (cost $8,466,153)* | | 8,466,153 |
| Investment in Scudder Cash Management QP Trust (cost $1,055,713) | | 1,055,713 |
| Total investments in securities, at value (cost $55,733,509) | | 67,414,222 |
| Cash | | 10,000 |
| Receivable for investments sold | | 666,790 |
| Dividends receivable | | 14,384 |
| Interest receivable | | 8,123 |
| Receivable for Portfolio shares sold | | 29,770 |
| Other assets | | 800 |
| Total assets | | 68,144,089 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 256,400 |
| Payable for Portfolio shares redeemed | | 2,477 |
| Payable upon return of securities loaned | | 8,466,153 |
| Accrued management fee | | 29,673 |
| Other accrued expenses and payables | | 48,801 |
| Total liabilities | | 8,803,504 |
| **Net assets, at value** | **$** | **59,340,585** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated net investment loss | | (122,798) |
| Net unrealized appreciation (depreciation) on investments | | 11,680,713 |
| Accumulated net realized gain (loss) | | (37,496,537) |
| Paid-in capital | | 85,279,207 |
| **Net assets, at value** | **$** | **59,340,585** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($53,199,510 ÷ 5,134,890 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **10.36** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($6,141,075 ÷ 598,638 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **10.26** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 129,088 |
| Interest — Scudder Cash Management QP Trust | | 31,546 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 3,400 |
| Total Income | | 164,034 |
| Expenses: | | |
| Management fee | | 216,369 |
| Custodian and accounting fees | | 32,562 |
| Distribution service fees (Class B) | | 7,355 |
| Record keeping fees (Class B) | | 3,988 |
| Auditing | | 19,256 |
| Legal | | 7,404 |
| Directors' fees and expenses | | 1,899 |
| Reports to shareholders | | 9,274 |
| Other | | 1,660 |
| Total expenses before expense reductions | | 299,767 |
| Expense reductions | | (15,028) |
| Total expenses after expense reductions | | 284,739 |
| **Net investment income (loss)** | | **(120,705)** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from investments | | 1,685,814 |
| Net unrealized appreciation (depreciation) during the period on investments | | 1,401,272 |
| **Net gain (loss) on investment transactions** | | **3,087,086** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **2,966,381** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (120,705) | $ (84,055) |
| Net realized gain (loss) on investment transactions | 1,685,814 | 2,570,533 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 1,401,272 | (452,406) |
| Net increase (decrease) in net assets resulting from operations | 2,966,381 | 2,034,072 |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 3,590,410 | 4,965,372 |
| Cost of shares redeemed | (6,229,876) | (9,699,886) |
| Net increase (decrease) in net assets from Class A share transactions | (2,639,466) | (4,734,514) |
| **Class B** | | |
| Proceeds from shares sold | 433,197 | 2,601,994 |
| Cost of shares redeemed | (771,886) | (435,771) |
| Net increase (decrease) in net assets from Class B share transactions | (338,689) | 2,166,223 |
| **Increase (decrease) in net assets** | (11,774) | (534,219) |
| Net assets at beginning of period | 59,352,359 | 59,886,578 |
| Net assets at end of period (including accumulated net investment loss of $122,798 and $2,093, respectively) | **$ 59,340,585** | **$ 59,352,359** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 5,401,258 | 5,923,874 |
| Shares sold | 362,941 | 534,758 |
| Shares redeemed | (629,309) | (1,057,374) |
| Net increase (decrease) in Portfolio shares | (266,368) | (522,616) |
| Shares outstanding at end of period | **5,134,890** | **5,401,258** |
| **Class B** | | |
| Shares outstanding at beginning of period | 634,195 | 405,258 |
| Shares sold | 44,013 | 277,046 |
| Shares redeemed | (79,570) | (48,109) |
| Net increase (decrease) in Portfolio shares | (35,557) | 228,937 |
| Shares outstanding at end of period | **598,638** | **634,195** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.84** | **$ 9.46** | **$ 7.06** | **$ 10.22** | **$ 13.20** | **$ 13.99** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | (.02) | (.01) | (.05) | (.01) | .06 | .18 |
| Net realized and unrealized gain (loss) on investment transactions | .54 | .39 | 2.45 | (3.11) | (2.92) | (.87) |
| **Total from investment operations** | .52 | .38 | 2.40 | (3.12) | (2.86) | (.69) |
| *Less distributions from:* | | | | | | |
| Net investment income | — | — | — | (.04) | (.12) | — |
| Net realized gains on investment transactions | — | — | — | — | — | (.10) |
| **Total distributions** | — | — | — | (.04) | (.12) | (.10) |
| **Net asset value, end of period** | **$ 10.36** | **$ 9.84** | **$ 9.46** | **$ 7.06** | **$ 10.22** | **$ 13.20** |
| Total Return (%) | 5.28[d]** | 4.02[d] | 33.99[d] | (30.66) | (21.76) | (4.96) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 53 | 53 | 56 | 44 | 71 | 66 |
| Ratio of expenses before expense reductions (%) | 1.00* | 1.02 | .98 | .81 | .86 | .95 |
| Ratio of expenses after expense reductions (%) | .95* | .95 | .95 | .81 | .86 | .94 |
| Ratio of net investment income (loss) (%) | (.38)* | (.11) | (.57) | (.19) | .58 | 1.22 |
| Portfolio turnover rate (%) | 89* | 103 | 91 | 71 | 42 | 103 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 9.76** | **$ 9.42** | **$ 7.06** | **$ 7.43** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.04) | (.05) | (.09) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | .54 | .39 | 2.45 | (.35) |
| **Total from investment operations** | .50 | .34 | 2.36 | (.37) |
| **Net asset value, end of period** | **$ 10.26** | **$ 9.76** | **$ 9.42** | **$ 7.06** |
| Total Return (%) | 5.12[d]** | 3.61[d] | 33.43[d] | (4.98)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 6 | 6 | 4 | .1 |
| Ratio of expenses before expense reductions (%) | 1.38* | 1.41 | 1.37 | 1.06* |
| Ratio of expenses after expense reductions (%) | 1.33* | 1.34 | 1.34 | 1.06* |
| Ratio of net investment income (loss) (%) | (.76)* | (.50) | (.96) | (.47)* |
| Portfolio turnover rate (%) | 89* | 103 | 91 | 71 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Scudder Blue Chip Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,011.10 | $ 1,009.50 |
| Expenses Paid per $1,000* | $ 3.44 | $ 5.28 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.37 | $ 1,019.54 |
| Expenses Paid per $1,000* | $ 3.46 | $ 5.31 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — Scudder Blue Chip Portfolio | .69% | 1.06% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Blue Chip Portfolio

The US stock market ended the period close to where it began. For the six-month period ended June 30, 2005, the portfolio returned 1.11% (Class A shares, unadjusted for contract charges) finishing ahead of the 0.11% return of its benchmark, the Russell 1000 Index.

We believe the portfolio was able to outperform its benchmark mainly because of our disciplined focus on individual stock selection. We generated the best relative performance within the retailing, energy and insurance industry groups. The most significant individual contributor was Valero Energy Corp. The company's revenue and margins benefited from rising oil prices. This holding was sold during the second quarter, as we believed the stock was fully valued relative to its peers. Within the retailing industry group, the portfolio's position in American Eagle Outfitters, Inc. was a key contributor to relative performance. The company experienced strong brand momentum and benefited from its fashion-appropriate assortments and value proposition. Margins have improved because the product line's appeal to customers has required minimal promotional activity. Stock selection was weakest within the technology hardware and equipment industry group. Our position in Cree, Inc., a leading developer and supplier of semiconductors, detracted from relative performance. Increased competition and weaker demand led to lower-than-expected revenues and gross margins. This holding was sold during the first quarter, as its fundamentals deteriorated relative to its peers.

Overall, we are pleased with the portfolio's performance and its current positioning. As always, we will continue to take a balanced approach to our stock selection methodology — considering both value and growth attributes as well as technical signals — to help us pinpoint timely market opportunities.

Janet Campagna
Robert Wang

Portfolio Managers
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Index is an unmanaged capitalization-weighted price-only index composed of the largest-capitalized United States companies whose common stocks are traded in the US. This larger capitalization, market-oriented index is highly correlated with the S&P 500 Index. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Blue Chip Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 97% | 96% |
| Cash Equivalents | 3% | 4% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 18% | 19% |
| Information Technology | 15% | 14% |
| Health Care | 15% | 15% |
| Consumer Discretionary | 15% | 12% |
| Industrials | 13% | 13% |
| Energy | 9% | 8% |
| Consumer Staples | 6% | 8% |
| Telecommunication Services | 3% | 4% |
| Utilities | 3% | 2% |
| Materials | 3% | 5% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 14. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Blue Chip Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 96.9%** | | |
| **Consumer Discretionary 14.3%** | | |
| **Auto Components 1.2%** | | |
| Autoliv, Inc. | 90,000 | **3,942,000** |
| **Hotels Restaurants & Leisure 2.4%** | | |
| Darden Restaurants, Inc. | 75,800 | 2,499,884 |
| McDonald's Corp. | 161,600 | 4,484,400 |
| Regal Entertainment Group "A" (e) | 47,600 | 898,688 |
| | | **7,882,972** |
| **Household Durables 0.5%** | | |
| Harman International Industries, Inc. | 18,600 | **1,513,296** |
| **Internet & Catalog Retail 0.4%** | | |
| eBay, Inc.* | 36,400 | **1,201,564** |
| **Media 4.1%** | | |
| John Wiley & Sons, Inc. "A" | 5,000 | 198,650 |
| Liberty Global, Inc. "A"* | 7,768 | 362,520 |
| Liberty Media Corp. "A"* | 55,200 | 562,488 |
| McGraw-Hill Companies, Inc. | 96,900 | 4,287,825 |
| Omnicom Group, Inc. | 45,600 | 3,641,616 |
| Walt Disney Co. | 177,900 | 4,479,522 |
| | | **13,532,621** |
| **Multiline Retail 2.5%** | | |
| Federated Department Stores, Inc. | 32,700 | 2,396,256 |
| J.C. Penney Co., Inc. | 27,600 | 1,451,208 |
| Target Corp. | 76,600 | 4,167,806 |
| | | **8,015,270** |
| **Specialty Retail 3.2%** | | |
| American Eagle Outfitters, Inc. | 91,000 | 2,789,150 |
| Barnes & Noble, Inc.* | 16,700 | 647,960 |
| Best Buy Co., Inc. | 40,900 | 2,803,695 |
| Michaels Stores, Inc. | 67,000 | 2,771,790 |
| Urban Outfitters, Inc.* | 26,200 | 1,485,278 |
| | | **10,497,873** |
| **Consumer Staples 5.7%** | | |
| **Beverages 0.2%** | | |
| PepsiCo, Inc. | 15,100 | **814,343** |
| **Food & Staples Retailing 0.3%** | | |
| 7-Eleven, Inc.* | 19,300 | 583,632 |
| Safeway, Inc.* | 16,700 | 377,253 |
| Wal-Mart Stores, Inc. | 100 | 4,820 |
| | | **965,705** |
| **Food Products 2.0%** | | |
| Pilgrim's Pride Corp.(e) | 85,200 | 2,907,876 |
| The Hershey Co. | 56,100 | 3,483,810 |
| | | **6,391,686** |
| **Household Products 1.4%** | | |
| Clorox Co. | 73,900 | 4,117,708 |
| Kimberly-Clark Corp. | 4,500 | 281,655 |
| Procter & Gamble Co. | 2,700 | 142,425 |
| | | **4,541,788** |

| | Shares | Value ($) |
|---|---|---|
| **Personal Products 0.3%** | | |
| Avon Products, Inc. | 6,700 | 253,595 |
| Gillette Co. | 13,600 | 688,568 |
| | | **942,163** |
| **Tobacco 1.5%** | | |
| Altria Group, Inc. | 19,200 | 1,241,472 |
| Loews Corp. — Carolina Group | 110,300 | 3,675,196 |
| | | **4,916,668** |
| **Energy 8.6%** | | |
| **Oil, Gas & Consumable Fuels 8.6%** | | |
| Apache Corp. | 60,600 | 3,914,760 |
| Burlington Resources, Inc. | 94,000 | 5,192,560 |
| ExxonMobil Corp. | 108,140 | 6,214,806 |
| Kerr-McGee Corp. (e) | 22,829 | 1,742,081 |
| Marathon Oil Corp. | 62,200 | 3,319,614 |
| Occidental Petroleum Corp. | 37,300 | 2,869,489 |
| Sunoco, Inc. | 42,500 | 4,831,400 |
| XTO Energy, Inc. | 1 | 34 |
| | | **28,084,744** |
| **Financials 17.9%** | | |
| **Banks 6.1%** | | |
| Bank of America Corp. | 209,600 | 9,559,856 |
| SunTrust Banks, Inc. | 41,800 | 3,019,632 |
| US Bancorp. | 129,800 | 3,790,160 |
| Wachovia Corp. | 67,800 | 3,362,880 |
| | | **19,732,528** |
| **Capital Markets 2.4%** | | |
| Bear Stearns Companies, Inc. | 46,900 | 4,874,786 |
| The Goldman Sachs Group, Inc. | 27,600 | 2,815,752 |
| | | **7,690,538** |
| **Consumer Finance 0.8%** | | |
| Providian Financial Corp.* | 156,700 | **2,762,621** |
| **Diversified Financial Services 2.7%** | | |
| Citigroup, Inc. | 53,600 | 2,477,928 |
| Countrywide Financial Corp. | 23,500 | 907,335 |
| Freddie Mac | 84,200 | 5,492,366 |
| | | **8,877,629** |
| **Insurance 4.2%** | | |
| Alleghany Corp.* | 112 | 33,264 |
| Allstate Corp. | 18,700 | 1,117,325 |
| American Financial Group, Inc. | 8,300 | 278,216 |
| Commerce Group, Inc. | 4,700 | 291,917 |
| Genworth Financial, Inc. "A" | 37,200 | 1,124,556 |
| MetLife, Inc. | 93,400 | 4,197,396 |
| Progressive Corp. | 19,400 | 1,916,914 |
| W.R. Berkley Corp. | 134,525 | 4,799,852 |
| | | **13,759,440** |
| **Real Estate 1.7%** | | |
| Apartment Investment & Management Co. "A" (REIT) | 5,700 | 233,244 |
| Avalonbay Communities, Inc. (REIT) | 5,900 | 476,720 |
| Boston Properties, Inc. (REIT) | 4,300 | 301,000 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Camden Property Trust (REIT) | 10,400 | 559,000 |
| CenterPoint Properties Corp. (REIT) | 5,200 | 219,960 |
| Equity Office Properties Trust (REIT) | 29,600 | 979,760 |
| Equity Residential (REIT) | 16,300 | 600,166 |
| General Growth Properties, Inc. (REIT) | 12,300 | 505,407 |
| Rayonier, Inc. | 8,200 | 434,846 |
| The Mills Corp. (REIT) | 4,900 | 297,871 |
| Vornado Realty Trust (REIT) | 10,800 | 868,320 |
| | | **5,476,294** |
| **Health Care 14.5%** | | |
| **Biotechnology 2.0%** | | |
| Amgen, Inc.* | 8,900 | 538,094 |
| Celgene Corp.* | 69,600 | 2,837,592 |
| Genzyme Corp.* | 50,400 | 3,028,536 |
| | | **6,404,222** |
| **Health Care Equipment & Supplies 3.4%** | | |
| Baxter International, Inc. | 93,200 | 3,457,720 |
| Becton, Dickinson & Co. | 85,200 | 4,470,444 |
| Dade Behring Holdings, Inc. | 46,700 | 3,035,967 |
| | | **10,964,131** |
| **Health Care Providers & Services 3.0%** | | |
| HCA, Inc. | 60,800 | 3,445,536 |
| Sierra Health Services, Inc.* | 3,400 | 242,964 |
| UnitedHealth Group, Inc. | 117,500 | 6,126,450 |
| | | **9,814,950** |
| **Pharmaceuticals 6.1%** | | |
| Barr Pharmaceuticals, Inc.* | 73,300 | 3,572,642 |
| Bristol-Myers Squibb Co. | 34,400 | 859,312 |
| Endo Pharmaceuticals Holdings, Inc.* | 92,600 | 2,433,528 |
| Johnson & Johnson | 137,182 | 8,916,830 |
| Merck & Co., Inc. | 68,100 | 2,097,480 |
| Pfizer, Inc. | 76,650 | 2,114,007 |
| | | **19,993,799** |
| **Industrials 12.2%** | | |
| **Aerospace & Defense 3.3%** | | |
| General Dynamics Corp. | 19,100 | 2,092,214 |
| Lockheed Martin Corp. | 61,100 | 3,963,557 |
| Raytheon Co. | 122,000 | 4,772,640 |
| | | **10,828,411** |
| **Air Freight & Logistics 1.4%** | | |
| Ryder System, Inc. | 120,800 | **4,421,280** |
| **Airlines 0.3%** | | |
| AMR Corp.* (e) | 94,100 | **1,139,551** |
| **Commercial Services & Supplies 1.5%** | | |
| Cendant Corp. | 207,100 | 4,632,827 |
| Total System Services, Inc. | 7,900 | 190,390 |
| | | **4,823,217** |
| **Industrial Conglomerates 4.7%** | | |
| 3M Co. | 19,700 | 1,424,310 |
| General Electric Co. | 401,900 | 13,925,835 |
| | | **15,350,145** |
| **Road & Rail 1.0%** | | |
| Yellow Roadway Corp.* | 65,900 | **3,347,720** |

| | Shares | Value ($) |
|---|---|---|
| **Information Technology 14.7%** | | |
| **Communications Equipment 1.9%** | | |
| Cisco Systems, Inc.* | 316,700 | **6,052,137** |
| **Computers & Peripherals 3.2%** | | |
| Apple Computer, Inc.* | 86,200 | 3,173,022 |
| Dell, Inc.* | 140,500 | 5,551,155 |
| EMC Corp.* | 134,600 | 1,845,366 |
| | | **10,569,543** |
| **Internet Software & Services 0.8%** | | |
| Google, Inc. "A"* | 4,100 | 1,206,015 |
| Yahoo!, Inc.* | 38,200 | 1,323,630 |
| | | **2,529,645** |
| **IT Consulting & Services 1.6%** | | |
| Alliance Data Systems Corp.* | 43,500 | 1,764,360 |
| Computer Sciences Corp.* | 73,800 | 3,225,060 |
| Unisys Corp.* | 38,400 | 243,071 |
| | | **5,232,491** |
| **Semiconductors & Semiconductor Equipment 4.3%** | | |
| Intel Corp. | 278,700 | 7,262,922 |
| MEMC Electronic Materials, Inc.* | 121,200 | 1,911,324 |
| Microchip Technology, Inc. | 37,500 | 1,110,750 |
| Texas Instruments, Inc. | 132,200 | 3,710,854 |
| | | **13,995,850** |
| **Software 2.9%** | | |
| Autodesk, Inc. | 27,100 | 931,427 |
| Citrix Systems, Inc.* | 118,700 | 2,571,042 |
| Microsoft Corp. | 230,200 | 5,718,168 |
| Symantec Corp.* | 10,800 | 234,792 |
| | | **9,455,429** |
| **Materials 2.7%** | | |
| **Containers & Packaging 0.7%** | | |
| Owens-Illinois, Inc.* | 96,500 | **2,417,325** |
| **Metals & Mining 2.0%** | | |
| Phelps Dodge Corp. | 38,200 | 3,533,500 |
| Southern Peru Copper Corp. (e) | 67,600 | 2,895,984 |
| | | **6,429,484** |
| **Telecommunication Services 3.3%** | | |
| **Diversified Telecommunication Services 1.7%** | | |
| Verizon Communications, Inc. | 164,600 | **5,686,930** |
| **Wireless Telecommunication Services 1.6%** | | |
| Nextel Communications, Inc. "A"* | 87,800 | 2,836,818 |
| NII Holdings, Inc.* | 35,600 | 2,276,264 |
| | | **5,113,082** |
| **Utilities 3.0%** | | |
| **Electric Utilities 0.9%** | | |
| Edison International | 25,600 | 1,038,080 |
| Exelon Corp. | 37,500 | 1,924,875 |
| | | **2,962,955** |
| **Independent Power Producers & Energy Traders 1.5%** | | |
| Duke Energy Corp. (e) | 161,900 | **4,813,287** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Multi-Utilities 0.6%** | | |
| Public Service Enterprise Group, Inc. | 34,700 | **2,110,454** |
| **Total Common Stocks** (Cost $296,099,467) | | **315,997,781** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **US Government Backed 0.2%** | | |
| US Treasury Bill, 2.869%**, 7/21/2005 (f) (Cost $728,861) | 730,000 | **728,861** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 3.8%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $12,244,280) | 12,244,280 | **12,244,280** |

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 2.9%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $9,376,730) | 9,376,730 | **9,376,730** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $318,449,338) (a) | 103.8 | **338,347,652** |
| **Other Assets and Liabilities, Net** | (3.8) | **(12,320,421)** |
| **Net Assets** | 100.0 | **326,027,231** |

## Notes to Scudder Blue Chip Portfolio of Investments

* *Non-income producing security.*

** *Annualized yield at time of purchase; not a coupon rate.*

(a) *The cost for federal income tax purposes was $320,064,395. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $18,283,257. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $23,736,974 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,453,717.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $11,938,473, which is 3.7% of net assets.*

(f) *At June 30, 2005, this security, in part or in whole, has been segregated to cover initial margin requirements for open futures contracts.*

*REIT: Real Estate Investment Trust*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration Date | Contracts | Aggregate Face Value ($) | Value ($) | Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| S&P 500 Index | 9/15/2005 | 33 | 9,907,091 | 9,862,875 | (44,216) |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $296,828,328) — including $11,938,473 of securities loaned | $ | 316,726,642 |
| Investment in Scudder Daily Assets Fund Institutional (cost $12,244,280)* | | 12,244,280 |
| Investment in Scudder Cash Management QP Trust (cost $9,376,730) | | 9,376,730 |
| Total investments in securities, at value (cost $318,449,338) | | 338,347,652 |
| Dividends receivable | | 335,969 |
| Interest receivable | | 38,359 |
| Receivable for Portfolio shares sold | | 48,226 |
| Other assets | | 4,733 |
| Total assets | | 338,774,939 |
| **Liabilities** | | |
| Payable for Portfolio shares redeemed | | 208,279 |
| Payable for daily variation margin on open futures contracts | | 61,050 |
| Payable upon return of securities loaned | | 12,244,280 |
| Accrued management fee | | 171,400 |
| Other accrued expenses and payables | | 62,699 |
| Total liabilities | | 12,747,708 |
| **Net assets, at value** | **$** | **326,027,231** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 1,353,850 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 19,898,314 |
| Futures | | (44,216) |
| Accumulated net realized gain (loss) | | (40,989) |
| Paid-in capital | | 304,860,272 |
| **Net assets, at value** | **$** | **326,027,231** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($286,825,785 ÷ 20,986,959 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **13.67** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($39,201,446 ÷ 2,872,527 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **13.65** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends | $ | 2,434,788 |
| Interest — Scudder Cash Management QP Trust | | 126,349 |
| Interest | | 9,242 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 64,649 |
| Total Income | | 2,635,028 |
| Expenses: | | |
| Management fee | | 1,027,047 |
| Custodian fees | | 10,749 |
| Distribution service fees (Class B) | | 48,153 |
| Record keeping fees (Class B) | | 23,730 |
| Auditing | | 21,177 |
| Legal | | 7,833 |
| Trustees' fees and expenses | | 1,257 |
| Reports to shareholders | | 17,999 |
| Other | | 7,670 |
| Total expenses, before expense reductions | | 1,165,615 |
| Expense reductions | | (1,367) |
| Total expenses, after expense reductions | | 1,164,248 |
| **Net investment income (loss)** | | **1,470,780** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 18,778,350 |
| Futures | | (107,523) |
| | | 18,670,827 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (16,360,724) |
| Futures | | (272,519) |
| | | (16,633,243) |
| **Net gain (loss) on investment transactions** | | **2,037,584** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **3,508,364** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 1,470,780 | $ 2,928,100 |
| Net realized gain (loss) on investment transactions | 18,670,827 | 38,719,019 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (16,633,243) | 1,111,435 |
| Net increase (decrease) in net assets resulting from operations | 3,508,364 | 42,758,554 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (2,673,957) | (1,626,701) |
| Class B | (231,257) | (56,503) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 21,689,699 | 28,844,570 |
| Reinvestment of distributions | 2,673,957 | 1,626,701 |
| Cost of shares redeemed | (20,899,640) | (26,173,350) |
| Net increase (decrease) in net assets from Class A share transactions | 3,464,016 | 4,297,921 |
| **Class B** | | |
| Proceeds from shares sold | 6,055,015 | 16,893,828 |
| Reinvestment of distributions | 231,257 | 56,503 |
| Cost of shares redeemed | (4,018,809) | (1,310,947) |
| Net increase (decrease) in net assets from Class B share transactions | 2,267,463 | 15,639,384 |
| **Increase (decrease) in net assets** | 6,334,629 | 61,012,655 |
| Net assets at beginning of period | 319,692,602 | 258,679,947 |
| Net assets at end of period (including undistributed net investment income of $1,353,850 and $2,788,284, respectively) | **$ 326,027,231** | **$ 319,692,602** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 20,734,323 | 20,421,127 |
| Shares sold | 1,603,483 | 2,286,747 |
| Shares issued to shareholders in reinvestment of distributions | 198,218 | 132,360 |
| Shares redeemed | (1,549,065) | (2,105,911) |
| Net increase (decrease) in Portfolio shares | 252,636 | 313,196 |
| Shares outstanding at end of period | **20,986,959** | **20,734,323** |
| **Class B** | | |
| Shares outstanding at beginning of period | 2,700,912 | 1,427,149 |
| Shares sold | 449,631 | 1,373,668 |
| Shares issued to shareholders in reinvestment of distributions | 17,156 | 4,597 |
| Shares redeemed | (295,172) | (104,502) |
| Net increase (decrease) in Portfolio shares | 171,615 | 1,273,763 |
| Shares outstanding at end of period | **2,872,527** | **2,700,912** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 13.65** | **$ 11.84** | **$ 9.37** | **$ 12.07** | **$ 14.41** | **$ 15.69** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .07 | .13 | .08 | .07 | .05 | .07 |
| Net realized and unrealized gain (loss) on investment transactions | .08 | 1.76 | 2.45 | (2.73) | (2.33) | (1.29) |
| **Total from investment operations** | .15 | 1.89 | 2.53 | (2.66) | (2.28) | (1.22) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.13) | (.08) | (.06) | (.04) | (.06) | (.06) |
| **Net asset value, end of period** | **$ 13.67** | **$ 13.65** | **$ 11.84** | **$ 9.37** | **$ 12.07** | **$ 14.41** |
| Total Return (%) | 1.11** | 16.04 | 27.25 | (22.11) | (15.81) | (7.84) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 287 | 283 | 242 | 174 | 240 | 228 |
| Ratio of expenses (%) | .69* | .70 | .71 | .69 | .69 | .71 |
| Ratio of net investment income (loss) (%) | .98* | 1.08 | .82 | .65 | .42 | .44 |
| Portfolio turnover rate (%) | 291* | 249 | 182 | 195 | 118 | 86 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 13.60** | **$ 11.80** | **$ 9.35** | **$ 10.28** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .04 | .09 | .04 | .03 |
| Net realized and unrealized gain (loss) on investment transactions | .09 | 1.74 | 2.45 | (.96) |
| **Total from investment operations** | .13 | 1.83 | 2.49 | (.93) |
| *Less distributions from:* | | | | |
| Net investment income | (.08) | (.03) | (.04) | — |
| **Net asset value, end of period** | **$ 13.65** | **$ 13.60** | **$ 11.80** | **$ 9.35** |
| Total Return (%) | .95** | 15.55 | 26.76 | (9.05)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 39 | 37 | 17 | .4 |
| Ratio of expenses (%) | 1.06* | 1.08 | 1.10 | .94* |
| Ratio of net investment income (loss) (%) | .61* | .70 | .43 | .61* |
| Portfolio turnover rate (%) | 291* | 249 | 182 | 195 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Scudder Fixed Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,026.80 | $ 1,025.40 |
| Expenses Paid per $1,000* | $ 3.32 | $ 5.17 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.52 | $ 1,019.69 |
| Expenses Paid per $1,000* | $ 3.31 | $ 5.16 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Fixed Income Portfolio | .66% | 1.03% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Fixed Income Portfolio

The "conundrum" of falling long-term interest rates in the face of tightening by the US Federal Reserve (the Fed) characterized the first half of 2005. The Fed surprised almost no one by continuing its "measured" tightening policy, increasing the fed funds rate by 1.0%. In contrast, the 10-year Treasury yield declined from 4.2% to 3.9% as the yield curve continued to flatten. All of the non-Treasury sectors of the bond market with the exception of corporate bonds outperformed Treasury issues. Against this backdrop, the portfolio posted a positive return of 2.68% (Class A shares, unadjusted for contract charges) for the six-month period, outpacing the 2.51% return of its benchmark, the Lehman Brothers Aggregate Bond Index.

Performance relative to the market benefited the most from security selection within the corporate sector. Specifically, bottom-up credit analysis led to relative overweight positions in the utilities and financials sectors relative to the benchmark, two sectors that performed well, and to relative underweight positions in autos sub sector, which dramatically underperformed the corporate market. In the mortgage area, select high-quality holdings with a relatively low level of prepayment risk also contributed to relative performance. In contrast, a general overweight in corporate bonds detracted somewhat from returns. We continue to employ our bottom-up, security-selection-driven process to identify undervalued bonds, with the goal of generating consistent excess returns that are attractive on both an absolute and a risk-adjusted basis.

| | | |
|---|---|---|
| Gary W. Bartlett, CFA | Timothy C. Vile, CFA | |
| Warren S. Davis | J. Christopher Gagnier | |
| Thomas J. Flaherty | Daniel R. Taylor, CFA | William T. Lissenden |
| Co-Lead Managers | | Portfolio Manager |

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investments by the portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. This portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and changes in political/economic conditions and market risks. All of these factors may result in greater share price volatility. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please see this portfolio's prospectus for specific details regarding its investments and risk profile.

A Treasury's guarantee relates only to the prompt payment of principal and interest and does not remove market risks if the investment is sold prior to maturity.

*The Lehman Brothers Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Yield, or coupon rate, is simply the interest paid by a bond at the time it matures (is paid back to the purchaser). A bond with a 10% coupon or interest rate yields 10% of its principal when it matures.*

*The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep" this is especially true), the line rises from left to right as investors who are willing to tie up their money for a longer period of time are rewarded with higher yields.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Fixed Income Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Collateralized Mortgage Obligations | 24% | 24% |
| Corporate Bonds | 17% | 16% |
| US Government Backed | 16% | 17% |
| Commercial and Non-Agency Mortgage Backed Securities | 12% | 11% |
| Foreign Bonds — US$ Denominated | 8% | 8% |
| US Government Agency Sponsored Pass-Throughs | 8% | 7% |
| Asset Backed | 6% | 8% |
| Municipal Bonds and Notes | 5% | 5% |
| Cash Equivalents, net | 4% | 4% |
| | 100% | 100% |

| **Corporate and Foreign Bonds Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 43% | 45% |
| Telecommunication Services | 12% | 8% |
| Utilities | 12% | 18% |
| Industrials | 11% | 1% |
| Materials | 8% | 4% |
| Energy | 6% | 11% |
| Consumer Discretionary | 5% | 6% |
| Health Care | 2% | 7% |
| Sovereign Bonds | 1% | — |
| | 100% | 100% |

| **Quality** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| US Government and Agencies | 48% | 49% |
| AAA* | 22% | 26% |
| AA | 3% | 3% |
| A | 13% | 11% |
| BBB | 12% | 11% |
| BB | 2% | — |
| | 100% | 100% |

* *Includes cash equivalents*

| **Effective Maturity** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Under 1 year | 12% | 9% |
| 1 < 5 years | 42% | 46% |
| 5 < 10 years | 30% | 25% |
| 10 < 15 years | 7% | 10% |
| 15 years or greater | 9% | 10% |
| | 100% | 100% |

*Asset allocation, corporate and foreign bonds diversification, quality and effective maturity are subject to change.*

*Weighted average effective maturity: 6.5 years and 6.7 years, respectively.*

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.*

*For more complete details about the Portfolio's investment portfolio, see page 23. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Fixed Income Portfolio

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Corporate Bonds 16.4%** | | |
| **Consumer Discretionary 1.4%** | | |
| Auburn Hills Trust, 12.375%, 5/1/2020 | 161,000 | 243,758 |
| Comcast MO of Delaware, Inc., 9.0%, 9/1/2008 | 490,000 | 555,355 |
| DaimlerChrysler NA Holding Corp., 4.75%, 1/15/2008 | 892,000 | 895,447 |
| Liberty Media Corp., 5.7%, 5/15/2013 | 480,000 | 446,449 |
| Mandalay Resort Group, 6.5%, 7/31/2009 (d) | 202,000 | 206,545 |
| MGM MIRAGE, 6.0%, 10/1/2009 | 395,000 | 396,975 |
| TCI Communications, Inc., 8.75%, 8/1/2015 | 663,000 | 850,483 |
| Tele-Communications, Inc.: | | |
| 9.875%, 6/15/2022 | 250,000 | 361,035 |
| 10.125%, 4/15/2022 | 198,000 | 290,409 |
| | | **4,246,456** |
| **Energy 1.2%** | | |
| Enterprise Products Operating LP: | | |
| 144A, 5.0%, 3/1/2015 | 517,000 | 507,659 |
| 7.5%, 2/1/2011 | 580,000 | 651,689 |
| Sempra Energy, 4.621%, 5/17/2007 | 1,510,000 | 1,517,130 |
| Tri-State Generation & Transmission Association, 144A, 6.04%, 1/31/2018 | 1,190,000 | 1,236,731 |
| | | **3,913,209** |
| **Financials 7.2%** | | |
| AIG SunAmerica Global Finance IX, 144A, 5.1%, 1/17/2007 | 835,000 | 845,373 |
| American General Finance Corp.: | | |
| Series H, 4.0%, 3/15/2011 | 1,417,000 | 1,368,253 |
| Series I, 4.875%, 5/15/2010 | 1,180,000 | 1,191,440 |
| Duke Capital LLC, 4.302%, 5/18/2006 | 1,204,000 | 1,206,504 |
| ERP Operating LP, 6.584%, 4/13/2015 | 1,420,000 | 1,589,237 |
| Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024 | 940,000 | 1,166,909 |
| Ford Motor Credit Co.: | | |
| 5.8%, 1/12/2009 | 599,000 | 568,628 |
| 6.875%, 2/1/2006 | 4,000,000 | 4,039,980 |
| General Motors Acceptance Corp., 6.75%, 1/15/2006 | 2,012,000 | 2,027,875 |
| HSBC Bank USA, 5.875%, 11/1/2034 | 880,000 | 958,965 |
| HSBC Finance Corp., 5.0%, 6/30/2015 | 1,855,000 | 1,869,482 |
| JPMorgan Chase Capital XV, 5.875%, 3/15/2035 | 1,955,000 | 2,006,641 |
| Merrill Lynch & Co., Inc., Series C, 5.0%, 1/15/2015 (d) | 486,000 | 497,632 |
| PLC Trust, Series 2003-1, 144A, 2.709%, 3/31/2006 | 1,103,812 | 1,099,971 |
| Simon Property Group L.P., (REIT), 144A, 4.6%, 6/15/2010 | 460,000 | 460,256 |
| The Goldman Sachs Group, Inc.: | | |
| 4.75%, 7/15/2013 | 945,000 | 944,209 |
| 5.125%, 1/15/2015 | 440,000 | 448,162 |
| | | **22,289,517** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Health Care 0.6%** | | |
| Health Care Service Corp., 144A, 7.75%, 6/15/2011 | 1,497,000 | **1,738,125** |
| **Industrials 1.0%** | | |
| BAE System 2001 Asset Trust, "B", Series 2001, 144A, 7.156%, 12/15/2011 | 281,280 | 301,474 |
| D.R. Horton, Inc.: | | |
| 5.375%, 6/15/2012 | 1,555,000 | 1,546,447 |
| 5.625%, 9/15/2014 (d) | 422,000 | 421,392 |
| K. Hovnanian Enterprises, Inc., 6.25%, 1/15/2015 | 810,000 | 799,875 |
| | | **3,069,188** |
| **Materials 0.9%** | | |
| Georgia-Pacific Corp.: | | |
| 7.75%, 11/15/2029 | 606,000 | 680,992 |
| 8.875%, 5/15/2031 | 952,000 | 1,178,100 |
| Newmont Mining Corp., 5.875%, 4/1/2035 | 755,000 | 769,354 |
| Weyerhaeuser Co.: | | |
| 7.125%, 7/15/2023 | 95,000 | 106,332 |
| 7.375%, 3/15/2032 | 140,000 | 165,085 |
| | | **2,899,863** |
| **Telecommunication Services 1.1%** | | |
| Anixter International, Inc., 5.95%, 3/1/2015 | 178,000 | 176,389 |
| Bell Atlantic New Jersey, Inc., Series A, 5.875%, 1/17/2012 | 877,000 | 927,089 |
| SBC Communications, Inc.: | | |
| 4.125%, 9/15/2009 | 2,085,000 | 2,067,721 |
| 6.15%, 9/15/2034 (d) | 265,000 | 287,058 |
| | | **3,458,257** |
| **Utilities 3.0%** | | |
| Centerior Energy Corp., Series B, 7.13%, 7/1/2007 | 1,490,000 | 1,569,006 |
| Consumers Energy Co.: | | |
| Series F, 4.0%, 5/15/2010 | 1,655,000 | 1,614,097 |
| 5.0%, 2/15/2012 | 1,160,000 | 1,179,120 |
| Pedernales Electric Cooperative, Series 02-A, 144A, 6.202%, 11/15/2032 | 1,715,000 | 1,989,245 |
| Progress Energy, Inc., 6.75%, 3/1/2006 | 1,000,000 | 1,017,053 |
| TXU Energy Co., 7.0%, 3/15/2013 | 585,000 | 652,411 |
| Xcel Energy, Inc., 7.0%, 12/1/2010 | 1,240,000 | 1,379,486 |
| | | **9,400,418** |
| **Total Corporate Bonds** (Cost $50,347,832) | | **51,015,033** |
| **Foreign Bonds — US$ Denominated 8.9%** | | |
| **Energy 0.2%** | | |
| Petro-Canada, 5.95%, 5/15/2035 | 680,000 | **711,330** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Financials 3.7%** | | |
| Barclays Bank PLC, 1.0%, 12/15/2049 | 720,000 | 735,552 |
| BNP Paribas SA, 144A, 5.186%, 6/29/2049 | 1,345,000 | 1,359,818 |
| DBS Capital Funding Corp., 144A, 7.657%, 3/31/2049 | 1,330,000 | 1,524,300 |
| Mantis Reef Ltd., 144A, 4.692%, 11/14/2008 | 2,120,000 | 2,126,409 |
| Mizuho Financial Group, (Cayman), 8.375%, 4/27/2049 | 2,710,000 | 2,963,385 |
| QBE Insurance Group Ltd., 144A, 5.647%, 7/1/2023 | 795,000 | 813,077 |
| Westfield Capital Corp., 144A, 4.375%, 11/15/2010 | 2,119,000 | 2,115,692 |
| | | **11,638,233** |
| **Industrials 1.6%** | | |
| Tyco International Group SA: | | |
| 6.75%, 2/15/2011 | 1,900,000 | 2,109,194 |
| 6.875%, 1/15/2029 | 1,831,000 | 2,185,549 |
| 7.0%, 6/15/2028 | 539,000 | 650,030 |
| | | **4,944,773** |
| **Materials 1.1%** | | |
| Celulosa Arauco y Constitucion SA, 144A, 5.625%, 4/20/2015 | 1,295,000 | 1,322,341 |
| Sociedad Concesionaria Autopista Central, 144A, 6.223%, 12/15/2026 | 1,915,000 | 2,104,164 |
| | | **3,426,505** |
| **Sovereign Bonds 0.3%** | | |
| United Mexican States: | | |
| Series A, 6.75%, 9/27/2034 (d) | 910,000 | 964,600 |
| 8.375%, 1/14/2011 | 65,000 | 75,660 |
| | | **1,040,260** |
| **Telecommunication Services 2.0%** | | |
| America Movil SA de CV, 5.75%, 1/15/2015 | 1,065,000 | 1,081,362 |
| British Telecommunications PLC, 8.625%, 12/15/2030 | 1,755,000 | 2,477,453 |
| Telecom Italia Capital: | | |
| 144A, 4.0%, 1/15/2010 | 440,000 | 427,536 |
| 5.25%, 11/15/2013 | 1,385,000 | 1,406,059 |
| Telecomunicaciones de Puerto Rico, 6.8%, 5/15/2009 | 625,000 | 669,137 |
| | | **6,061,547** |
| **Total Foreign Bonds — US$ Denominated** (Cost $26,766,633) | | **27,822,648** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Asset Backed 6.7%** | | |
| **Automobile Receivables 2.2%** | | |
| Drive Auto Receivables Trust, "A3", Series 2004-1, 144A, 3.5%, 8/15/2008 | 1,490,000 | 1,479,925 |
| MMCA Automobile Trust: | | |
| "A4", Series 2002-4, 3.05%, 11/16/2009 | 1,058,830 | 1,051,805 |
| "A4", Series 2002-2, 4.3%, 3/15/2010 | 1,508,175 | 1,507,410 |
| "B", Series 2002-2, 4.67%, 3/15/2010 | 486,668 | 485,802 |
| "B", Series 2002-1, 5.37%, 1/15/2010 | 438,264 | 439,383 |
| Onyx Acceptance Owner Trust, "A3", Series 2003-D, 2.4%, 12/15/2007 | 1,858,884 | 1,851,409 |
| | | **6,815,734** |
| **Credit Card Receivables 1.5%** | | |
| Capital One Multi-Asset Execution Trust: | | |
| "B3", Series 2004-B3, 3.95%*, 1/18/2022 | 2,955,000 | 3,024,727 |
| "B1", Series 2005-B1, 4.9%, 12/15/2017 | 1,515,000 | 1,551,276 |
| | | **4,576,003** |
| **Home Equity Loans 2.7%** | | |
| Aegis Asset Backed Securities Trust, "N1", Series 2005-3N, 144A, 4.75%, 8/25/2035 | 1,550,000 | 1,550,469 |
| Countrywide Asset-Backed Certificates: | | |
| "AF2", Series 2005-7, 4.367%, 11/25/2035 | 2,340,000 | 2,339,995 |
| "N1", Series 2004-2N, 144A, 5.0%, 2/25/2035 | 427,148 | 424,463 |
| Novastar NIM Trust: | | |
| "NOTE", Series 2004-N1, 144A, 4.458%, 2/26/2034 | 93,469 | 93,434 |
| "NOTE", Series 2005-N1, 144A, 4.77%, 10/26/2035 | 1,486,186 | 1,486,186 |
| Renaissance Home Equity Loan Trust, "AF6", Series 2005-2, 4.781%, 7/25/2035 | 835,000 | 835,000 |
| Renaissance NIM Trust, "A", Series 2004-A, 144A, 4.45%, 6/25/2034 | 304,691 | 304,405 |
| Residential Asset Securities Corp., "AI6", Series 2000-KS1, 7.905%, 2/25/2031 | 1,425,113 | 1,456,444 |
| | | **8,490,396** |
| **Industrials 0.3%** | | |
| Delta Air Lines, Inc., "G-2", Series 2002-1, 6.417%, 7/2/2012 | 821,000 | **863,732** |
| **Total Asset Backed** (Cost $20,783,015) | | **20,745,865** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **US Government Agency Sponsored Pass-Throughs 7.7%** | | |
| Federal Home Loan Mortgage Corp.: | | |
| 4.0%, 5/1/2019 | 2,426,549 | 2,373,757 |
| 4.5%, 5/1/2024 | 2,207,289 | 2,180,366 |
| 6.0%, 12/1/2034 | 1,644,034 | 1,686,864 |
| Federal National Mortgage Association: | | |
| 4.5% with various maturities from 7/1/2018 until 10/1/2033 (g) | 4,592,545 | 4,512,933 |
| 5.0%, 8/1/2033 (g) | 2,235,000 | 2,235,000 |
| 5.5% with various maturities from 7/1/2024 until 1/1/2025 | 6,028,398 | 6,151,979 |
| 6.31%, 6/1/2008 | 1,500,000 | 1,566,783 |
| 6.5% with various maturities from 3/1/2017 until 9/1/2034 | 2,026,152 | 2,100,345 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($) | Value ($) |
|---|---|---|
| 7.13%, 1/1/2012 | 1,115,749 | 1,153,700 |
| 8.0%, 9/1/2015 | 55,944 | 59,834 |
| **Total US Government Agency Sponsored Pass-Throughs** (Cost $23,893,752) | | **24,021,561** |

## Commercial and Non-Agency Mortgage-Backed Securities 12.0%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Banc of America Commercial Mortgage, Inc., "AJ", Series 2005-1, 5.153%*, 11/10/2042 | 2,270,000 | 2,368,230 |
| Citicorp Mortgage Securities, Inc., "A4", Series 2003-3, 5.5%, 3/25/2033 | 1,248,792 | 1,251,414 |
| Citigroup Mortgage Loan Trust, Inc.: | | |
| "1A2", Series 2004-NCM-1, 6.5%, 6/25/2034 | 1,333,666 | 1,376,594 |
| "1CB2", Series 2004-NCM2, 6.75%, 8/25/2034 | 1,781,260 | 1,849,726 |
| Countrywide Alternative Loan Trust: | | |
| "A2", Series 2003-6T2, 5.0%, 6/25/2033 | 1,918,990 | 1,922,377 |
| "1A1", Series 2004-J1, 6.0%, 2/25/2034 | 396,715 | 401,361 |
| "7A1", Series 2004-J2, 6.0%, 12/25/2033 | 518,638 | 526,418 |
| First Union-Lehman Brothers Commercial Mortgage, "A3", Series 1997-C1, 7.38%, 4/18/2029 | 1,277,138 | 1,324,573 |
| GMAC Commercial Mortgage Securities, Inc., "A3", Series 1997-C1, 6.869%, 7/15/2029 | 539,980 | 563,857 |
| Greenwich Capital Commercial Funding Corp.: | | |
| "AJ", Series 2005-GG3, 4.859%, 8/10/2042 | 845,000 | 857,853 |
| "B", Series 2005-GG3, 4.894%, 8/10/2042 | 1,410,000 | 1,425,423 |
| GS Mortgage Securities Corp. II, "C", Series 1998-C1, 6.91%, 10/18/2030 | 1,260,000 | 1,352,934 |
| LB-UBS Commercial Mortgage Trust, "AJ", Series 2005-C3, 4.843%, 7/15/2040 | 3,095,000 | 3,156,139 |
| Master Alternative Loans Trust: | | |
| "5A1", Series 2005-1, 5.5%, 1/25/2020 | 749,664 | 765,898 |
| "3A1", Series 2004-5, 6.5%, 6/25/2034 | 68,343 | 70,201 |
| "5A1", Series 2005-2, 6.5%, 12/25/2034 | 473,888 | 482,853 |
| "8A1", Series 2004-3, 7.0%, 4/25/2034 | 351,534 | 359,637 |
| Master Asset Securitization Trust: | | |
| "2A7", Series 2003-9, 5.5%, 10/25/2033 | 1,415,280 | 1,438,286 |
| "8A1", Series 2003-6, 5.5%, 7/25/2033 | 861,915 | 867,572 |
| Merrill Lynch Mortgage Investors, Inc., "D", Series 1996-C1, 7.42%, 4/25/2028 | 2,130,000 | 2,157,843 |
| Park Place Securities NIM Trust, "B", Series 2004-MHQ1, 144A, 3.474%, 12/25/2034 | 1,597,010 | 1,589,025 |
| Residential Asset Securitization Trust, "A1", Series 2003-A11, 4.25%, 11/25/2033 | 1,153,708 | 1,151,747 |
| Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035 | 976,118 | 982,689 |
| Washington Mutual: | | |
| "A6", Series 2003-AR11, 3.985%, 10/25/2033 | 1,540,000 | 1,522,657 |
| "A7, Series 2004-AR9, 4.211%*, 8/25/2034 | 1,393,000 | 1,391,405 |
| "2A1", Series 2002-S8, 4.5%, 1/25/2018 | 608,938 | 608,025 |
| "4A", Series 2004-CB2, 6.5%, 8/25/2034 | 244,086 | 251,943 |
| Wells Fargo Mortgage Backed Securities Trust: | | |
| "A6", Series 2004-N, 4.0%, 8/25/2034 | 2,350,000 | 2,344,599 |
| "2A14", Series 2005-AR10, 4.111%*, 6/25/2035 | 2,350,000 | 2,343,146 |
| "1A6", Series 2003-1, 4.5%, 2/25/2018 | 487,802 | 487,305 |
| **Total Commercial and Non-Agency Mortgage-Backed Securities** (Cost $37,328,484) | | **37,191,730** |

## Collateralized Mortgage Obligations 23.9%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Fannie Mae Grantor Trust: | | |
| "1A3", Series 2004-T2, 7.0%, 11/25/2043 | 506,854 | 537,628 |
| "1A3", Series 2004-T3, 7.0%, 2/25/2044 | 243,346 | 255,365 |
| "A2", Series 2002-T19, 7.0%, 7/25/2042 | 656,420 | 694,980 |
| Fannie Mae Whole Loan: | | |
| "2A3", Series 2003-W3, 4.16%, 6/25/2042 | 1,162,778 | 1,160,150 |
| "A2", Series 2004-W4, 5.0%, 6/25/2034 | 2,115,000 | 2,145,931 |
| "1A1", Series 2004-W15, 6.0%, 8/25/2044 | 1,935,198 | 1,997,864 |
| "2A", Series 2002-W1, 7.5%, 2/25/2042 | 866,685 | 922,265 |
| "5A", Series 2004-W2, 7.5%, 3/25/2044 | 1,460,173 | 1,569,055 |
| Federal Home Loan Mortgage Corp.: | | |
| "NB", Series 2750, 4.0%, 12/15/2022 | 2,839,000 | 2,820,355 |
| "XG", Series 2737, 4.0%, 11/15/2022 | 1,050,000 | 1,043,252 |
| "KB", Series 2552, 4.25%, 6/15/2027 | 1,874,329 | 1,873,636 |
| "LC", Series 2682, 4.5%, 7/15/2032 | 805,000 | 793,006 |
| "PE", Series 2727, 4.5%, 7/15/2032 | 2,395,000 | 2,358,014 |
| "HG", Series 2543, 4.75%, 9/15/2028 | 1,336,446 | 1,340,946 |
| "BG", Series 2640, 5.0%, 2/15/2032 | 2,060,000 | 2,065,908 |
| "BG", Series 2869, 5.0%, 7/15/2033 | 335,000 | 337,642 |
| "BU", Series 2911, 5.0%, 9/15/2023 | 2,403,000 | 2,442,481 |
| "EG", Series 2836, 5.0%, 12/15/2032 | 2,770,000 | 2,770,858 |
| "KD", Series 2915, 5.0%, 9/15/2033 | 1,341,000 | 1,339,828 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($) | Value ($) |
|---|---|---|
| "NE", Series 2802, 5.0%, 2/15/2033 | 2,640,000 | 2,646,553 |
| "NE", Series 2921, 5.0%, 9/15/2033 | 2,275,000 | 2,274,834 |
| "OE", Series 2840, 5.0%, 2/15/2033 | 2,780,000 | 2,780,854 |
| "OG", Series 2889, 5.0%, 5/15/2033 | 1,770,000 | 1,780,226 |
| "OL", Series 2840, 5.0%, 11/15/2022 | 2,335,000 | 2,374,255 |
| "PD", Series 2783, 5.0%, 1/15/2033 | 1,283,000 | 1,286,475 |
| "PD", Series 2844, 5.0%, 12/15/2032 | 2,765,000 | 2,768,569 |
| "PD", Series 2890, 5.0%, 3/15/2033 | 1,485,000 | 1,495,772 |
| "PE", Series 2721, 5.0%, 1/15/2023 | 135,000 | 135,904 |
| "PE", Series 2864, 5.0%, 6/15/2033 | 2,275,000 | 2,279,543 |
| "PE", Series 2898, 5.0%, 5/15/2033 | 860,000 | 864,059 |
| "PQ", Series 2844, 5.0%, 5/15/2023 | 1,616,000 | 1,648,330 |
| "QK", Series 2513, 5.0%, 8/15/2028 | 33,328 | 33,283 |
| "TE", Series 2780, 5.0%, 1/15/2033 | 1,785,000 | 1,789,832 |
| "UE", Series 2911, 5.0%, 6/15/2033 | 3,055,000 | 3,073,854 |
| "XD", Series 2941, 5.0%, 5/15/2033 | 1,055,000 | 1,055,609 |
| "CH", Series 2390, 5.5%, 12/15/2016 | 440,000 | 456,672 |
| "PE", Series 2378, 5.5%, 11/15/2016 | 1,765,000 | 1,833,954 |
| "PE", Series 2512, 5.5%, 2/15/2022 | 45,000 | 46,948 |
| "TG", Series 2517, 5.5%, 4/15/2028 | 195,204 | 195,074 |
| "BD", Series 2453, 6.0%, 5/15/2017 | 1,006,739 | 1,045,223 |
| "Z", Series 2173, 6.5%, 7/15/2029 | 344,593 | 359,816 |
| "3A", Series T-41, 7.5%, 7/25/2032 | 1,136,248 | 1,211,176 |
| Federal National Mortgage Association: | | |
| "A2", Series 2003-63, 2.34%, 7/25/2044 | 90,343 | 90,076 |
| "NE", Series 2004-52, 4.5%, 7/25/2033 | 1,282,000 | 1,255,314 |
| "WB", Series 2003-106, 4.5%, 10/25/2015 | 1,735,000 | 1,740,781 |
| "A2", Series 2002-W10, 4.7%, 8/25/2042 | 1,767 | 1,762 |
| "1A3", Series 2003-W18, 4.732%, 8/25/2043 | 825,747 | 825,756 |
| "HE", Series 2005-22, 5.0%, 10/25/2033 | 1,540,000 | 1,540,649 |
| "PE", Series 2005-44, 5.0%, 7/25/2033 | 650,000 | 648,359 |
| "QD", Series 2005-29, 5.0%, 8/25/2033 | 435,000 | 434,739 |
| "MC", Series 2002-56, 5.5%, 9/25/2017 | 822,219 | 841,029 |
| "PG", Series 2002-3, 5.5%, 2/25/2017 | 500,000 | 522,396 |
| "QC", Series 2002-11, 5.5%, 3/25/2017 | 640,000 | 666,293 |
| "PM", Series 2001-60, 6.0%, 3/25/2030 | 227,072 | 228,744 |
| "QN", Series 2001-51, 6.0%, 10/25/2016 | 405,000 | 421,055 |
| "QX", Series 2001-51, 6.0%, 2/25/2015 | 11,202 | 11,187 |
| "VD", Series 2002-56, 6.0%, 4/25/2020 | 155,075 | 156,760 |
| "A2", Series 1998-M6, 6.32%, 8/15/2008 | 920,745 | 967,124 |
| "HM", Series 2002-36, 6.5%, 12/25/2029 | 58,935 | 59,322 |
| "1A2", Series 2003-W3, 7.0%, 8/25/2042 | 537,959 | 569,347 |
| FHLMC Structured Pass-Through Securities: | | |
| "1A2", Series T-59, 7.0%, 10/25/2043 | 686,835 | 728,723 |
| "3A", Series T-58, 7.0%, 9/25/2043 | 692,399 | 731,704 |
| **Total Collateralized Mortgage Obligations** (Cost $73,921,649) | | **74,347,099** |

## Municipal Bonds and Notes 5.5%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Brockton, MA, General Obligation, Economic Development, Series A, 6.45%, 5/1/2017 (c) | 1,530,000 | 1,725,243 |
| California, Statewide Communities Development Authority Revenue, Series A-1, 4.0%, 11/15/2006 (c) | 1,515,000 | 1,513,334 |
| Illinois, Higher Education Revenue, 7.05%, 7/1/2009 (c) | 1,410,000 | 1,557,133 |
| Jersey City, NJ, Municipal Utilities Authority, Water Revenue, Series B, 4.55%, 5/15/2012 (c) | 1,000,000 | 1,010,250 |
| Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013 | 945,000 | 977,905 |
| Los Angeles, CA, Community Redevelopment Agency, Financing Authority Revenue, Bunker Hill Project, Series B, 5.83%, 12/1/2017 (c) | 2,500,000 | 2,727,825 |
| New York, General Obligation, Environmental Facilities Corp., Series B, 4.95%, 1/1/2013 (c) | 1,500,000 | 1,553,685 |
| Oklahoma City, OK, Airport Revenue, 5.2%, 10/1/2012 (c) | 1,430,000 | 1,493,506 |
| Oregon, School Boards Association, Pension Deferred Interest, Series A, Zero Coupon, 6/30/2017 (c) | 3,830,000 | 2,175,325 |
| Portland, OR, River District, Urban Renewal & Redevelopment, Series B, 3.35%, 6/15/2010 (c) | 1,550,000 | 1,494,247 |
| Trenton, NJ, School District General Obligation, 4.3%, 4/1/2011 (c) | 1,040,000 | 1,037,213 |
| **Total Municipal Bonds and Notes** (Cost $16,502,577) | | **17,265,666** |

## Government National Mortgage Association 0.1%

| | Principal Amount ($) | Value ($) |
|---|---|---|
| Government National Mortgage Association, 6.0% with various maturities from 1/15/2034 until 6/20/2034 (cost $336,255) | 327,830 | **338,136** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **US Government Backed 15.9%** | | |
| US Treasury Bond, 6.0%, 2/15/2026 (d) | 6,951,000 | 8,564,390 |
| US Treasury Notes: | | |
| 3.0%, 12/31/2006 (d) | 3,655,000 | 3,621,447 |
| 3.375%, 2/15/2008 (d) | 27,569,000 | 27,368,683 |
| 3.625%, 7/15/2009 | 8,353,000 | 8,325,268 |
| 4.75%, 5/15/2014 (d) | 1,049,000 | 1,113,088 |
| 5.0%, 8/15/2011 (d) | 470,000 | 501,082 |
| **Total US Government Backed** (Cost $49,272,982) | | **49,493,958** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 11.0%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (e) (f) (Cost $34,228,099) | 34,228,099 | **34,228,099** |

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 3.9%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $12,135,271) | 12,135,271 | **12,135,271** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $345,516,549) (a) | 112.0 | **348,605,066** |
| **Other Assets and Liabilities, Net** | (12.0) | **(37,483,074)** |
| **Net Assets** | 100.0 | **311,121,992** |

## Notes to Scudder Fixed Income Portfolio of Investments

* *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of June 30, 2005.*

(a) *The cost for federal income tax purposes was $345,548,607. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $3,056,459. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,568,385 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,511,926.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Bond is insured by one of these companies:*

| Insurance Coverage | As a % of Total Investment Portfolio |
|---|---|
| Ambac Financial Group | 1.3% |
| Financial Guaranty Insurance Co. | 1.9% |
| Financial Security Assurance Inc. | 1.2% |
| MBIA Corp. | 0.3% |

(d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005, amounted to $33,571,894, which is 10.8% of net assets.*

(e) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(f) *Represents collateral held in connection with securities lending.*

(g) *Mortgage dollar roll included.*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association, Federal Home Loan Mortgage Corp. and the Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.*

*REIT: Real Estate Investment Trust*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $299,153,179) — including $33,571,894 of securities loaned | $ | 302,241,696 |
| Investment in Scudder Daily Assets Fund Institutional (cost $34,228,099)* | | 34,228,099 |
| Investment in Scudder Cash Management QP Trust (cost $12,135,271) | | 12,135,271 |
| Total investments in securities, at value (cost $345,516,549) | | 348,605,066 |
| Cash | | 355,950 |
| Receivable for investments sold | | 2,223,596 |
| Interest receivable | | 2,612,510 |
| Receivable for Portfolio shares sold | | 3,585 |
| Other assets | | 3,761 |
| Total assets | | 353,804,468 |
| **Liabilities** | | |
| Payable for investments purchased | | 2,721,848 |
| Payable upon return of securities loaned | | 34,228,099 |
| Payable for investments purchased — mortgage dollar rolls | | 5,250,129 |
| Deferred mortgage dollar roll income | | 405 |
| Accrued management fee | | 147,066 |
| Payable for Portfolio shares redeemed | | 228,785 |
| Other accrued expenses and payables | | 106,144 |
| Total liabilities | | 42,682,476 |
| **Net assets, at value** | **$** | **311,121,992** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 5,258,985 |
| Net unrealized appreciation (depreciation) on investments | | 3,088,517 |
| Accumulated net realized gain (loss) | | 490,252 |
| Paid-in capital | | 302,284,238 |
| **Net assets, at value** | **$** | **311,121,992** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($222,410,846 ÷ 18,747,092 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.86** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($88,711,146 ÷ 7,480,300 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.86** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Interest | $ | 6,667,550 |
| Mortgage dollar roll income | | 40,763 |
| Interest — Scudder Cash Management QP Trust | | 166,605 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 52,906 |
| Total Income | | 6,927,824 |
| Expenses: | | |
| Management fee | | 908,539 |
| Custodian fees | | 10,751 |
| Distribution service fees (Class B) | | 109,823 |
| Record keeping fees (Class B) | | 56,583 |
| Auditing | | 23,469 |
| Legal | | 11,484 |
| Trustees' fees and expenses | | 3,174 |
| Reports to shareholders | | 30,347 |
| Other | | 8,459 |
| Total expenses, before expense reductions | | 1,162,629 |
| Expense reductions | | (1,942) |
| Total expenses, after expense reductions | | 1,160,687 |
| **Net investment income (loss)** | | **5,767,137** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 587,039 |
| Net unrealized appreciation (depreciation) during the period on investments | | 1,694,519 |
| **Net gain (loss) on investment transactions** | | **2,281,558** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **8,048,695** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 5,767,137 | $ 9,852,018 |
| Net realized gain (loss) on investment transactions | 587,039 | 2,613,421 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 1,694,519 | (740,835) |
| Net increase (decrease) in net assets resulting from operations | 8,048,695 | 11,724,604 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (7,365,945) | (6,899,791) |
| Class B | (2,666,763) | (1,766,032) |
| Net realized gains | | |
| Class A | (1,950,232) | (3,369,665) |
| Class B | (794,464) | (976,642) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 34,964,879 | 43,408,606 |
| Reinvestment of distributions | 9,316,177 | 10,269,456 |
| Cost of shares redeemed | (28,459,115) | (42,555,105) |
| Net increase (decrease) in net assets from Class A share transactions | 15,821,940 | 11,122,957 |
| **Class B** | | |
| Proceeds from shares sold | 4,420,058 | 46,084,279 |
| Reinvestment of distributions | 3,461,227 | 2,742,674 |
| Cost of shares redeemed | (6,239,757) | (6,180,393) |
| Net increase (decrease) in net assets from Class B share transactions | 1,641,528 | 42,646,560 |
| **Increase (decrease) in net assets** | 12,734,759 | 52,481,991 |
| Net assets at beginning of period | 298,387,233 | 245,905,242 |
| Net assets at end of period (including undistributed net investment income of $5,258,985 and $9,524,556, respectively) | **$ 311,121,992** | **$ 298,387,233** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 17,397,738 | 16,493,825 |
| Shares sold | 2,935,451 | 3,610,180 |
| Shares issued to shareholders in reinvestment of distributions | 808,696 | 865,161 |
| Shares redeemed | (2,394,793) | (3,571,428) |
| Net increase (decrease) in Portfolio shares | 1,349,354 | 903,913 |
| Shares outstanding at end of period | **18,747,092** | **17,397,738** |
| **Class B** | | |
| Shares outstanding at beginning of period | 7,335,272 | 3,731,351 |
| Shares sold | 369,856 | 3,887,722 |
| Shares issued to shareholders in reinvestment of distributions | 300,193 | 230,865 |
| Shares redeemed | (525,021) | (514,666) |
| Net increase (decrease) in Portfolio shares | 145,028 | 3,603,921 |
| Shares outstanding at end of period | **7,480,300** | **7,335,272** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.07** | **$ 12.16** | **$ 11.98** | **$ 11.48** | **$ 11.45** | **$ 11.00** |
| *Income from investment operations:* | | | | | | |
| Net investment income[d] | .23 | .50 | .45 | .53 | .62 | .69 |
| Net realized and unrealized gain (loss) on investment transactions | .08 | .05 | .14 | .37 | .01 | .36 |
| **Total from investment operations** | .31 | .55 | .59 | .90 | .63 | 1.05 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.41) | (.43) | (.41) | (.40) | (.60) | (.60) |
| Net realized gains on investment transactions | (.11) | (.21) | — | — | — | — |
| **Total distributions** | (.52) | (.64) | (.41) | (.40) | (.60) | (.60) |
| **Net asset value, end of period** | **$ 11.86** | **$ 12.07** | **$ 12.16** | **$ 11.98** | **$ 11.48** | **$ 11.45** |
| Total Return (%) | 2.68** | 4.53 | 5.13 | 8.01 | 5.71 | 9.90 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 222 | 210 | 201 | 216 | 134 | 78 |
| Ratio of expenses before expense reductions (%) | .66* | .66 | .66 | .65 | .64 | .68 |
| Ratio of expenses after expense reductions (%) | .66* | .66 | .66 | .65 | .64 | .67 |
| Ratio of net investment income (loss) (%) | 3.91* | 4.18 | 3.75 | 4.57 | 5.46 | 6.36 |
| Portfolio turnover rate (%) | 226[e]* | 185[e] | 229[e] | 267 | 176 | 311 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by $.01, increase net realized and unrealized gains and losses per share by $.01 and decrease the ratio of net investment income to average net assets from 5.54% to 5.46%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

[c] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[d] *Based on average shares outstanding during the period.*

[e] *The portfolio turnover rate including mortgage dollar roll transactions was 243% for the six months ended June 30, 2005, 204% and 265% for the year ended December 31, 2004 and December 31, 2003, respectively.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 12.04** | **$ 12.13** | **$ 11.96** | **$ 11.36** |
| *Income from investment operations:* | | | | |
| Net investment income[c] | .21 | .45 | .40 | .27 |
| Net realized and unrealized gain (loss) on investment transactions | .08 | .05 | .15 | .33 |
| **Total from investment operations** | .29 | .50 | .55 | .60 |
| *Less distributions from:* | | | | |
| Net investment income | (.36) | (.38) | (.38) | — |
| Net realized gains on investment transactions | (.11) | (.21) | — | — |
| **Total distributions** | (.47) | (.59) | (.38) | — |
| **Net asset value, end of period** | **$ 11.86** | **$ 12.04** | **$ 12.13** | **$ 11.96** |
| Total Return (%) | 2.54** | 4.10 | 4.76 | 5.28** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 89 | 88 | 45 | 2 |
| Ratio of expenses (%) | 1.03* | 1.03 | 1.05 | .92* |
| Ratio of net investment income (loss) (%) | 3.54* | 3.81 | 3.36 | 4.69* |
| Portfolio turnover rate (%) | 226[d]* | 185[d] | 229[d] | 267 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

[d] *The portfolio turnover rate including mortgage dollar roll transactions was 243% for the six months ended June 30, 2005, 204% and 265% for the year ended December 31, 2004 and December 31, 2003, respectively.*

* *Annualized* ** *Not annualized*

## Scudder Global Blue Chip Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,027.70 | $ 1,026.30 |
| Expenses Paid per $1,000* | $ 6.94 | $ 8.84 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,017.95 | $ 1,016.07 |
| Expenses Paid per $1,000* | $ 6.90 | $ 8.80 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Global Blue Chip Portfolio | 1.38% | 1.76% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Global Blue Chip Portfolio

The portfolio outperformed its benchmark in the first half of 2005, returning 2.77% (Class A shares, unadjusted for contract charges). In comparison, the Morgan Stanley Capital International (MSCI) World Index returned –0.70% for the same period, while the average return among the 32 comparable annuity portfolios in Lipper's Global Core category was –0.59%.

The portfolio continues to invest in fundamentally sound companies that we believe will benefit from longer-term themes in the world economy. Our Ultimate Subcontractors theme, which invests in companies whose access to materials enables them to dominate price negotiations, contributed strongly to performance. Many of the companies in this theme are leveraged to oil and natural gas, and the recent spike in energy prices helped these stocks rally. Top contributors included ConocoPhillips (US) (not held in the portfolio at the end of the reporting period) and EnCana Corp. (Canada), as well as Russian energy companies LUKOIL and OAO Gazprom. Supply Chain Dominance, a theme that focuses on companies that are becoming the partner of choice for both suppliers and customers in their respective industries, also contributed to performance. The identification of capital-abundant companies that thrive on intellectual property is the thesis of our Virtuality theme, which produced good results in the second quarter. Among the top performers here were Monsanto Co. (US) and Infosys Technologies Ltd. (India), which rose on the expectation for faster growth in the software services industry. Greater China, a theme that seeks to exploit the growth of consumerism and the emerging middle class in Asia, also finished higher. However, Japan Restructuring, a theme based on the evolving relationship between Japanese government and business, detracted from performance.

Oliver Kratz
Steve M. Wreford, CFA

Co-Lead Portfolio Managers
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividends and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of stock markets around the world, including North America, Europe, Australia and Asia. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*The Lipper Global Core category includes funds that, by portfolio practice, invest at least 75% of their equity assets in companies both inside and outside of the U.S. with market capitalizations (on a three–year weighted basis) greater than the 500th–largest company in the S&P/Citigroup World Broad Market Index. Large–cap core funds typically have an average price–to–cash flow sets in ratio, price–to–book ratio, and three–year sales–per–share growth value compared to the S&P/Citigroup World BMI.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Global Blue Chip Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 92% | 89% |
| Cash Equivalents | 4% | 8% |
| Exchange Traded Fund | 2% | 2% |
| Preferred Stocks | 2% | 1% |
| | 100% | 100% |

| **Sector Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 18% | 21% |
| Materials | 17% | 16% |
| Energy | 13% | 13% |
| Information Technology | 13% | 11% |
| Industrials | 12% | 12% |
| Health Care | 8% | 9% |
| Consumer Discretionary | 8% | 6% |
| Utilities | 4% | 7% |
| Telecommunication Services | 4% | 2% |
| Consumer Staples | 3% | 3% |
| | 100% | 100% |

| **Geographical Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Asia (excluding Japan) | 26% | 13% |
| Continental Europe | 24% | 30% |
| United States | 19% | 28% |
| Japan | 8% | 11% |
| Latin America | 8% | 3% |
| United Kingdom | 7% | 7% |
| Canada | 5% | 6% |
| Africa | 2% | 2% |
| Middle East | 1% | — |
| | 100% | 100% |

*Asset allocation, sector diversification and geographical diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 34. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Global Blue Chip Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 90.0%** | | |
| **Australia 0.2%** | | |
| Alumina Ltd. (Cost $119,014) | 47,100 | **198,529** |
| **Austria 1.3%** | | |
| Erste Bank der oesterreichischen Sparkassen AG | 6,000 | 300,109 |
| Wienerberger AG | 15,800 | 732,947 |
| (Cost $804,088) | | **1,033,056** |
| **Brazil 1.3%** | | |
| Banco Bradesco SA (ADR) (Preferred) (d) | 23,600 | 835,204 |
| Companhia Vale do Rio Doce (ADR) | 5,350 | 156,648 |
| Porto Seguro SA | 9,100 | 81,842 |
| (Cost $877,194) | | **1,073,694** |
| **Canada 4.5%** | | |
| Canadian National Railway Co. | 15,700 | 905,710 |
| EnCana Corp. | 29,450 | 1,161,703 |
| Goldcorp, Inc. | 35,050 | 557,562 |
| Meridian Gold, Inc.* | 21,000 | 377,081 |
| Placer Dome, Inc. | 45,250 | 692,489 |
| (Cost $1,913,577) | | **3,694,545** |
| **China 1.9%** | | |
| China Petroleum & Chemical Corp. "H" | 2,948,000 | 1,152,922 |
| Shanghai Electric Group Co., Ltd. "H"* | 1,606,000 | 362,949 |
| (Cost $1,480,086) | | **1,515,871** |
| **Finland 0.3%** | | |
| Neste Oil Oyj* (Cost $184,375) | 9,400 | **243,434** |
| **France 3.5%** | | |
| Carrefour SA | 7,925 | 382,428 |
| Societe Generale | 5,268 | 533,613 |
| Total SA | 8,228 | 1,926,849 |
| (Cost $2,229,947) | | **2,842,890** |
| **Germany 10.8%** | | |
| Allianz AG (Registered) | 10,357 | 1,185,535 |
| BASF AG | 25,738 | 1,705,914 |
| Bayer AG | 16,554 | 550,569 |
| Bayerische Motoren Werke AG | 9,912 | 450,983 |
| Commerzbank AG (d) | 64,273 | 1,389,590 |
| E.ON AG | 20,949 | 1,859,854 |
| Schering AG | 11,400 | 698,156 |
| Stada Arzneimittel AG | 6,798 | 247,045 |
| Volkswagen AG | 14,882 | 678,923 |
| (Cost $7,007,137) | | **8,766,569** |
| **Hong Kong 2.5%** | | |
| China Mobile (Hong Kong) Ltd. | 125,600 | 464,415 |
| Fountain Set Holdings Ltd. | 906,000 | 464,904 |
| Hutchison Whampoa Ltd. | 97,000 | 871,803 |
| Shangri-La Asia Ltd. | 143,000 | 220,903 |
| (Cost $1,854,394) | | **2,022,025** |
| **India 2.6%** | | |
| Infosys Technologies Ltd. | 12,000 | 649,259 |
| Oil & Natural Gas Corp. Ltd. | 26,600 | 624,102 |
| Reliance Industries Ltd. | 57,000 | 841,079 |
| (Cost $1,724,218) | | **2,114,440** |
| **Indonesia 1.0%** | | |
| PT Telekomunikasi Indonesia (ADR) (Cost $721,484) | 37,600 | **783,960** |
| **Israel 0.8%** | | |
| Teva Pharmaceutical Industries Ltd. (ADR) (Cost $584,451) | 19,925 | **620,464** |
| **Italy 1.6%** | | |
| Capitalia SpA | 166,200 | 925,531 |
| Enel SpA | 40,000 | 347,663 |
| (Cost $935,765) | | **1,273,194** |
| **Japan 7.4%** | | |
| FANUC Ltd. | 14,400 | 912,554 |
| Japan Retail Fund Investment Corp. (REIT) | 23 | 197,128 |
| Komatsu Ltd. | 164,000 | 1,266,152 |
| Mitsubishi Estate Co., Ltd. | 76,000 | 831,666 |
| Mitsui Fudosan Co., Ltd. | 106,000 | 1,186,777 |
| Mizuho Financial Group, Inc. | 120 | 540,407 |
| Nomura Holdings, Inc. | 93,000 | 1,104,242 |
| (Cost $5,282,388) | | **6,038,926** |
| **Korea 4.5%** | | |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 38,500 | 734,429 |
| Insun ENT Co., Ltd. | 4,000 | 69,117 |
| LG Electronics, Inc. | 13,700 | 863,394 |
| Samsung Electronics Co., Ltd. | 4,010 | 1,899,908 |
| SFA Engineering Corp. | 3,500 | 90,132 |
| (Cost $3,314,354) | | **3,656,980** |
| **Malaysia 0.4%** | | |
| Resorts World Bhd. (Cost $367,005) | 143,500 | **358,217** |
| **Mexico 3.0%** | | |
| Cemex SA de CV (ADR) | 19,650 | 833,553 |
| Fomento Economico Mexicano SA de CV (ADR) | 19,200 | 1,143,744 |
| Grupo Televisa SA (ADR) | 7,700 | 478,093 |
| (Cost $1,973,406) | | **2,455,390** |
| **Peru 2.2%** | | |
| Compania de Minas Buenaventura SA (ADR) (Cost $1,552,031) | 77,000 | **1,770,230** |
| **Russia 4.7%** | | |
| AFK Sistema (GDR), 144A* | 43,200 | 708,480 |
| LUKOIL (ADR) | 38,500 | 1,417,185 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| OAO Gazprom "S" (ADR) (Registered) | 46,850 | 1,684,129 |
| (Cost $3,062,627) | | **3,809,794** |
| **Singapore 0.9%** | | |
| DBS Group Holdings Ltd. | 60,000 | 507,698 |
| Singapore Telecommunications Ltd. | 149,060 | 245,080 |
| (Cost $606,624) | | **752,778** |
| **South Africa 1.7%** | | |
| Gold Fields Ltd. | 92,000 | 1,050,305 |
| Impala Platinum Holdings Ltd. (ADR) | 16,028 | 358,452 |
| (Cost $1,236,610) | | **1,408,757** |
| **Sweden 1.4%** | | |
| Skandinaviska Enskilda Banken AB "A" (Cost $1,051,757) | 68,800 | **1,140,960** |
| **Switzerland 2.8%** | | |
| ABB Ltd.* | 126,614 | 825,020 |
| Credit Suisse Group (Registered) | 10,933 | 428,934 |
| Nestle SA (Registered) | 1,509 | 385,643 |
| Novartis AG (Registered) | 14,067 | 668,140 |
| (Cost $2,010,068) | | **2,307,737** |
| **Taiwan 4.2%** | | |
| AU Optronics Corp. (ADR)* | 25,900 | 438,746 |
| Bank of Kaohsiung | 112,000 | 79,077 |
| Hon Hai Precision Industry Co., Ltd. | 150,249 | 777,667 |
| Quanta Computer, Inc. | 534,417 | 1,014,876 |
| Taiwan Semiconductor Manufacturing Co., Ltd. (ADR) | 122,430 | 1,116,558 |
| (Cost $2,902,115) | | **3,426,924** |
| **Thailand 1.1%** | | |
| Bangkok Bank PCL (Foreign Registered) | 234,500 | 610,229 |
| Thai Olefins PCL (Foreign Registered) | 223,300 | 310,702 |
| (Cost $993,255) | | **920,931** |
| **United Kingdom 6.4%** | | |
| Anglo American PLC | 23,397 | 549,121 |
| GlaxoSmithKline PLC | 53,865 | 1,299,635 |
| MFI Furniture Group PLC | 184,165 | 363,874 |
| National Grid Transco PLC | 85,965 | 831,281 |
| Rank Group PLC | 41,000 | 196,768 |
| Rio Tinto PLC | 13,765 | 419,093 |
| RT Group PLC* | 54,206 | 3,156 |
| William Morrison Supermarkets PLC | 356,897 | 1,184,047 |
| Woolworths Group PLC | 516,972 | 341,840 |
| (Cost $4,989,283) | | **5,188,815** |
| **United States 16.5%** | | |
| AFLAC, Inc. | 26,200 | 1,133,936 |
| Avocent Corp.* | 12,200 | 318,908 |
| Caremark Rx, Inc.* | 12,350 | 549,822 |
| Caterpillar, Inc. | 13,000 | 1,239,030 |
| Devon Energy Corp. | 15,100 | 765,268 |
| Eaton Corp. | 5,500 | 329,450 |
| Hewlett-Packard Co. | 63,625 | 1,495,824 |
| Medicines Co.* | 13,850 | 323,951 |
| Monsanto Co. | 18,400 | 1,156,808 |
| Motorola, Inc. | 31,800 | 580,668 |
| Newmont Mining Corp. | 28,100 | 1,096,743 |
| Pfizer, Inc. | 35,700 | 984,606 |
| SBC Communications, Inc. | 34,175 | 811,656 |
| Schlumberger Ltd. | 13,100 | 994,814 |
| VERITAS Software Corp.* | 32,975 | 804,590 |
| Wyeth | 18,350 | 816,575 |
| (Cost $11,322,459) | | **13,402,649** |
| **Venezuela 0.5%** | | |
| Compania Anonima Nacional Telefonos de Venezuela (ADR) (Cost $421,598) | 21,300 | **403,422** |
| **Total Common Stocks** (Cost $61,521,310) | | **73,225,181** |

## Preferred Stocks 1.4%

| | Shares | Value ($) |
|---|---|---|
| **Brazil 0.3%** | | |
| Perdigao SA (Cost $162,320) | 8,800 | **209,165** |
| **Germany 1.1%** | | |
| Porsche AG (Cost $803,648) | 1,234 | **925,074** |
| **Total Preferred Stocks** (Cost $965,968) | | **1,134,239** |

## Exchange Traded Funds 2.3%

| | Shares | Value ($) |
|---|---|---|
| iShares MSCI Malaysia Index Fund | 74,550 | 515,886 |
| iShares NASDAQ Biotechnology Index Fund* (d) | 19,450 | 1,320,655 |
| **Total Exchange Traded Funds** (Cost $1,878,329) | | **1,836,541** |

## Securities Lending Collateral 2.9%

| | Shares | Value ($) |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $2,366,006) | 2,366,006 | **2,366,006** |

## Cash Equivalents 4.3%

| | Shares | Value ($) |
|---|---|---|
| Scudder Cash Management, QP Trust, 3.14% (b) (Cost $3,460,910) | 3,460,910 | **3,460,910** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $70,192,523) (a) | 100.9 | **82,022,877** |
| **Other Assets and Liabilities, Net** | (0.9) | **(691,988)** |
| **Net Assets** | 100.0 | **81,330,889** |

*The accompanying notes are an integral part of the financial statements.*

## Notes to Scudder Global Blue Chip Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $70,305,275. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $11,717,602. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $13,149,085 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,431,483.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is also managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $2,298,706, which is 2.8% of total net assets.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*GDR: Global Depository Receipt*

*REIT: Real Estate Investment Trust*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $64,365,607) — including $2,298,706 of securities loaned | $ | 76,195,961 |
| Investment in Scudder Daily Assets Fund Institutional (cost $2,366,006)* | | 2,366,006 |
| Investment in Scudder Cash Management QP Trust (cost $3,460,910) | | 3,460,910 |
| Total investments in securities, at value (cost $70,192,523) | | 82,022,877 |
| Foreign currency, at value (cost $1,321,746) | | 1,313,693 |
| Receivables for investments sold | | 376,644 |
| Dividends receivable | | 178,731 |
| Interest receivable | | 9,002 |
| Receivable for Portfolio shares sold | | 34,344 |
| Foreign taxes recoverable | | 18,043 |
| Other assets | | 1,253 |
| Total assets | | 83,954,587 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 13,657 |
| Deferred foreign taxes | | 43,448 |
| Payable upon return of securities loaned | | 2,366,006 |
| Payable for Portfolio shares redeemed | | 73,467 |
| Accrued management fee | | 65,306 |
| Other accrued expenses and payables | | 61,814 |
| Total liabilities | | 2,623,698 |
| **Net assets, at value** | **$** | **81,330,889** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 356,003 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments (net of deferred foreign taxes of $43,448) | | 11,786,906 |
| Foreign currency related transactions | | (9,919) |
| Accumulated net realized gain (loss) | | (1,927,002) |
| Paid-in capital | | 71,124,901 |
| **Net assets, at value** | **$** | **81,330,889** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($66,289,765 ÷ 5,491,905 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.07** |
| **Class B** | | |
| **Net Asset Value**, offering and redemption price per share ($15,041,124 ÷ 1,244,341 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.09** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $103,406) | $ | 919,622 |
| Interest | | 16 |
| Interest — Scudder Cash Management QP Trust | | 38,812 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 40,070 |
| Total Income | | 998,520 |
| Expenses: | | |
| Management fee | | 383,075 |
| Custodian and accounting fees | | 102,247 |
| Distribution service fees (Class B) | | 16,829 |
| Record keeping fees (Class B) | | 8,109 |
| Auditing | | 26,410 |
| Legal | | 6,097 |
| Trustees' fees and expenses | | 951 |
| Reports to shareholders | | 10,499 |
| Other | | 2,092 |
| Total expenses, before expense reductions | | 556,309 |
| Expense reductions | | (514) |
| Total expenses, after expense reductions | | 555,795 |
| **Net investment income (loss)** | | **442,725** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments (net of foreign taxes of $449) | | 2,888,794 |
| Foreign currency related transactions | | (2,858) |
| | | 2,885,936 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments (net of deferred foreign taxes of $43,448) | | (1,154,182) |
| Foreign currency related transactions | | (16,352) |
| | | (1,170,534) |
| **Net gain (loss) on investment transactions** | | **1,715,402** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **2,158,127** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 442,725 | $ 204,775 |
| Net realized gain (loss) on investment transactions | 2,885,936 | 5,240,327 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (1,170,534) | 3,765,688 |
| Net increase (decrease) in net assets resulting from operations | 2,158,127 | 9,210,790 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (188,888) | (686,309) |
| Class B | — | (57,902) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 5,867,614 | 10,246,696 |
| Reinvestment of distributions | 188,888 | 686,309 |
| Cost of shares redeemed | (4,379,994) | (9,557,336) |
| Net increase (decrease) in net assets from Class A share transactions | 1,676,508 | 1,375,669 |
| **Class B** | | |
| Proceeds from shares sold | 2,502,431 | 5,449,125 |
| Reinvestment of distributions | — | 57,902 |
| Cost of shares redeemed | (390,452) | (572,691) |
| Net increase (decrease) in net assets from Class B share transactions | 2,111,979 | 4,934,336 |
| **Increase (decrease) in net assets** | 5,757,726 | 14,776,584 |
| Net assets at beginning of period | 75,573,163 | 60,796,579 |
| Net assets at end of period (including undistributed net investment income of $356,003 and $102,166, respectively) | **$ 81,330,889** | **$ 75,573,163** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 5,350,985 | 5,262,148 |
| Shares sold | 496,615 | 941,848 |
| Shares issued to shareholders in reinvestment of distributions | 15,980 | 64,503 |
| Shares redeemed | (371,675) | (917,514) |
| Net increase (decrease) in Portfolio shares | 140,920 | 88,837 |
| Shares outstanding at end of period | **5,491,905** | **5,350,985** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,064,827 | 588,861 |
| Shares sold | 212,239 | 522,896 |
| Shares issued to shareholders in reinvestment of distributions | — | 5,427 |
| Shares redeemed | (32,725) | (52,357) |
| Net increase (decrease) in Portfolio shares | 179,514 | 475,966 |
| Shares outstanding at end of period | **1,244,341** | **1,064,827** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 11.78** | **$ 10.39** | **$ 8.08** | **$ 9.64** | **$ 11.81** | **$ 12.37** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .07 | .04 | .09 | .07 | .08 | .03 |
| Net realized and unrealized gain (loss) on investment transactions | .25 | 1.48 | 2.25 | (1.57) | (1.90) | (.44) |
| **Total from investment operations** | .32 | 1.52 | 2.34 | (1.50) | (1.82) | (.41) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.03) | (.13) | (.03) | (.06) | — | — |
| Net realized gains on investment transactions | — | — | — | — | (.35) | (.15) |
| **Total distributions** | (.03) | (.13) | (.03) | (.06) | (.35) | (.15) |
| **Net asset value, end of period** | **$ 12.07** | **$ 11.78** | **$ 10.39** | **$ 8.08** | **$ 9.64** | **$ 11.81** |
| Total Return (%) | 2.77** | 14.76 | 29.13[d] | (15.77) | (15.48) | (3.36)[d] |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 66 | 63 | 55 | 43 | 44 | 33 |
| Ratio of expenses before expense reductions (%) | 1.38* | 1.44 | 1.48 | 1.32 | 1.24 | 1.78 |
| Ratio of expenses after expense reductions (%) | 1.38* | 1.43 | 1.17 | 1.32 | 1.24 | 1.50 |
| Ratio of net investment income (loss) (%) | 1.22* | .38 | 1.02 | .79 | .76 | .28 |
| Portfolio turnover rate (%) | 72* | 81 | 65 | 41 | 52 | 54 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

c *Based on average shares outstanding during the period.*

d *Total returns would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 11.78** | **$ 10.38** | **$ 8.06** | **$ 8.98** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .05 | .00[e] | .04 | .02 |
| Net realized and unrealized gain (loss) on investment transactions | .26 | 1.48 | 2.29 | (.94) |
| **Total from investment operations** | .31 | 1.48 | 2.33 | (.92) |
| *Less distributions from:* | | | | |
| Net investment income | — | (.08) | (.01) | — |
| **Net asset value, end of period** | **$ 12.09** | **$ 11.78** | **$ 10.38** | **$ 8.06** |
| Total Return (%) | 2.63** | 14.33 | 28.96[d] | (10.24)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 15 | 13 | 6 | .2 |
| Ratio of expenses before expense reductions (%) | 1.76* | 1.84 | 1.87 | 1.60* |
| Ratio of expenses after expense reductions (%) | 1.76* | 1.83 | 1.64 | 1.60* |
| Ratio of net investment income (loss) (%) | .84* | .02 | .55 | .49* |
| Portfolio turnover rate (%) | 72* | 81 | 65 | 41 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

c *Based on average shares outstanding during the period.*

d *Total returns would have been lower had certain expenses not been reduced.*

e *Amount is less than $.005 per share.*

* *Annualized* ** *Not annualized*

## Scudder Government & Agency Securities Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,018.20 | $ 1,016.50 |
| Expenses Paid per $1,000* | $ 3.10 | $ 5.00 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.72 | $ 1,019.84 |
| Expenses Paid per $1,000* | $ 3.11 | $ 5.01 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — Scudder Government & Agency Securities Portfolio | .62% | 1.00% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Government & Agency Securities Portfolio

The semiannual period was characterized by solid economic growth accompanied by a mixed employment picture as reflected in the economic indicators. This environment permitted the US Federal Reserve Board (the Fed) to maintain its policy of increasing short-term rates in a measured fashion. Despite the rise in short-term interest rates, longer-term rates actually experienced a modest decline over the period, as the financial markets displayed confidence that the Fed was pursuing a policy that would continue to curtail potential inflationary pressures. While the price of oil reached $60 a barrel, the market, for the most part, chose to view this as a check on economic growth rather than a potential source of inflation. This period of mixed economic signals and stable or falling long-term interest rates resulted in modest positive returns for mortgage-backed securities.

During the semiannual period ended June 30, 2005, the portfolio provided a total return of 1.82% (Class A shares, unadjusted for contract charges), compared with the 2.10% return of its benchmark, the Lehman Brothers GNMA Index.

During the past six months, we continued to focus on mortgages that will maintain their yield in a wide variety of interest rate scenarios. In doing so, we purchased GNMA mortgages with specific geographic characteristics and smaller loan sizes, which have proved to be less sensitive to early redemptions, or prepayments, by home owners. We shifted cash assets into some CMOs and FHLMC/FNMA securities to enhance yield as well. In anticipation of a stable interest rate environment, we have emphasized 30-year mortgages over 15-year instruments because of the yield advantage of longer-term issues. We believe that the Fed will continue to raise short-term interest rates incrementally over the near term. If interest rates continue to be relatively stable, we expect to maintain our current strategy of emphasizing certain mortgage pool characteristics and longer-term mortgages in order to help maintain an attractive dividend for fund investors.

Sean P. McCaffrey, CFA
William Chepolis, CFA

Co-Managers
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The government guarantee relates only to the prompt payment of principal and interest and does not remove market risks. Additionally, yields will fluctuate in response to changing interest rates and may be affected by the prepayment of mortgage-backed securities. Bond investments are subject to interest–rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Lehman Brothers GNMA Index is an unmanaged market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Government & Agency Securities Portfolio

| Asset Allocation | 6/30/05 | 12/31/04 |
|---|---|---|
| Agencies Backed by the Full Faith and Credit of the US Government (GNMA) | 61% | 57% |
| Agencies Not Backed by the Full Faith and Credit of the US Government (FNMA, FHLMC) | 34% | 21% |
| US Treasury Obligations | 5% | 4% |
| Cash Equivalents | — | 18% |
| | 100% | 100% |

| Credit Quality | 6/30/05 | 12/31/04 |
|---|---|---|
| AAA | 100% | 100% |

| Interest Rate Sensitivity | 6/30/05 | 12/31/04 |
|---|---|---|
| Average Maturity | 5.7 years | 4.6 years |
| Average Duration | 2.4 years | 2.6 years |

*Asset allocation, credit quality and interest rate sensitivity are subject to change.*

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.*

*For more complete details about the Portfolio's investment portfolio, see page 43. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Government & Agency Securities Portfolio

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Agencies Backed by the Full Faith and Credit of the US Government 65.3%** | | |
| Government National Mortgage Association: | | |
| 5.0% with various maturities from 4/20/2033 until 2/15/2035 (b) | 31,147,640 | 31,387,133 |
| 5.5% with various maturities from 4/15/2020 until 5/20/2035 (b) | 90,757,701 | 92,697,234 |
| 6.0% with various maturities from 12/20/2031 until 3/20/2035 (b) | 50,123,716 | 51,677,658 |
| 6.5% with various maturities from 3/15/2014 until 8/20/2034 | 20,317,344 | 21,200,649 |
| 7.0% with various maturities from 6/20/2017 until 10/15/2032 | 5,160,226 | 5,459,441 |
| 7.5% with various maturities from 4/15/2026 until 7/15/2032 | 4,056,126 | 4,346,827 |
| 8.0% with various maturities from 12/15/2026 until 11/15/2031 | 1,295,264 | 1,400,313 |
| 8.5% with various maturities from 5/15/2016 until 12/15/2030 | 175,398 | 191,444 |
| 9.5% with various maturities from 6/15/2013 until 12/15/2022 | 71,883 | 79,621 |
| 10.0% with various maturities from 2/15/2016 until 3/15/2016 | 28,451 | 31,958 |
| **Total Agencies Backed by the Full Faith and Credit of the US Government** (Cost $207,407,959) | | **208,472,278** |
| **Agencies Not Backed by the Full Faith and Credit of the US Government 33.2%** | | |
| Federal Farm Credit Bank, 4.125%, 4/15/2009 | 6,000,000 | 6,038,070 |
| Federal Home Loan Bank, 3.625%, 6/20/2007 | 24,000,000 | 23,902,704 |
| Federal Home Loan Mortgage Corp.: | | |
| 4.5%, 5/1/2019 | 76,855 | 76,579 |
| 4.644%, 2/1/2035 | 966,742 | 970,513 |
| 5.0% with various maturities from 9/1/2033 until 12/1/2033 (b) (d) | 5,433,451 | 5,433,887 |
| 5.5%, 2/1/2017 | 74,145 | 76,143 |
| 6.0% with various maturities from 12/1/2014 until 4/1/2034 | 4,149,536 | 4,258,040 |
| 6.5%, 9/1/2032 | 260,159 | 269,728 |
| 7.0% with various maturities from 5/1/2029 until 9/1/2032 | 4,323,691 | 4,552,882 |
| 7.5% with various maturities from 1/1/2027 until 11/1/2033 | 884,376 | 947,310 |
| 8.0%, 11/1/2030 | 8,222 | 8,854 |
| 8.5%, 7/1/2030 | 5,941 | 6,474 |
| Federal National Mortgage Association: | | |
| 4.544%, 1/1/2035 | 1,618,912 | 1,620,905 |
| 4.551%, 2/1/2035 | 2,468,560 | 2,476,923 |
| 4.63%, 1/1/2035 | 2,126,219 | 2,139,650 |
| 4.668%, 2/1/2035 | 1,559,094 | 1,570,179 |
| 4.747%, 5/1/2035 | 2,359,903 | 2,371,447 |
| 4.876%, 12/1/2034 | 992,982 | 1,003,627 |
| 5.0% with various maturities from 10/1/2019 until 10/1/2033 | 11,745,383 | 11,804,108 |
| 5.5% with various maturities from 1/1/2033 until 6/1/2035 (b) | 11,346,778 | 11,512,221 |
| 6.0% with various maturities from 4/1/2015 until 2/1/2035 (b) (d) | 6,837,363 | 7,013,640 |
| 6.5% with various maturities from 8/1/2013 until 7/1/2034 | 7,033,101 | 7,286,438 |
| 7.0% with various maturities from 9/1/2013 until 7/1/2034 (d) | 1,297,526 | 1,368,355 |
| 7.5% with various maturities from 7/1/2011 until 3/1/2032 (b) | 2,738,753 | 2,926,823 |
| 8.0%, 12/1/2024 | 22,606 | 24,393 |
| Tennessee Valley Authority, 5.625%, 1/18/2011 | 6,000,000 | 6,448,170 |
| **Total Agencies Not Backed by the Full Faith and Credit of the US Government** (Cost $106,268,692) | | **106,108,063** |
| **US Treasury Obligations 5.1%** | | |
| US Treasury Bills, 2.869%*, 7/21/2005 (c) | 165,000 | 164,742 |
| US Treasury Note: | | |
| 3.625%, 4/30/2007 | 6,000,000 | 5,996,718 |
| 4.0%, 2/15/2015 | 5,000,000 | 5,017,775 |
| 5.75%, 11/15/2005 | 5,000,000 | 5,044,335 |
| **Total US Treasury Obligations** (Cost $16,081,853) | | **16,223,570** |
| **Collateralized Mortgage Obligations 12.1%** | | |
| Federal Home Loan Mortgage Corp.: | | |
| "PO", Series 228, Principal Only, Zero Coupon, 2/1/2035 | 2,693,955 | 2,315,454 |
| "PF", Series 2962, 3.47%**, 3/15/2035 | 4,352,285 | 4,359,476 |
| "IO", Series 228, Interest Only, 6.0%, 2/1/2035 | 2,693,955 | 450,384 |
| Federal National Mortgage Association: | | |
| "IN", Series 2003-84, Interest Only, 4.5%, 4/25/2013 | 3,959,593 | 252,199 |
| "L0", Series 2005-50, Principal Only, Zero Coupon, 6/25/2035 | 2,105,009 | 1,872,476 |
| "FC", Series 2005-58, 3.34%, 7/25/2035 | 6,350,000 | 6,355,956 |
| "PF", Series 2005-59, 3.34%, 5/25/2035 | 3,372,238 | 3,372,238 |
| FHLMC Structured Pass-Through Securities, "3A", Series T-54, 7.0%, 2/25/2043 | 1,629,508 | 1,722,695 |
| Government National Mortgage Association: | | |
| "DA", Series 2005-45, 3.39%, 6/16/2035 | 10,000,000 | 9,996,591 |
| "FB", Series 2005-43, 3.436%, 2/17/2032 | 4,215,625 | 4,189,825 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($) | Value ($) |
|---|---|---|
| "FA", Series 2005-18, 3.46%, 10/20/2032 | 3,000,000 | 3,007,098 |
| "IB", Series 2003-86, Interest Only, 5.0%, 1/20/2029 | 4,550,000 | 777,803 |
| **Total Collateralized Mortgage Obligations** (Cost $38,663,022) | | **38,672,195** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $368,421,526) (a) | 115.7 | **369,476,106** |
| **Other Assets and Liabilities, Net** | (15.7) | **(50,171,993)** |
| **Net Assets** | 100.0 | **319,304,113** |

## Notes to Scudder Government & Agency Securities Portfolio of Investments

* *Annualized yield at time of purchase; not a coupon rate.*

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury Bill rate. These securities are shown at their current rate as of June 30, 2005.*

(a) *The cost for federal income tax purposes was $368,377,730. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $1,098,376. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,255,074 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,156,698.*

(b) *Mortgage dollar roll included.*

(c) *At June 30, 2005, these securities have been segregated, in part or in whole, to cover initial margin requirements for open futures contracts.*

(d) *When issued or forward delivery securities included (see Notes to Financial Statements).*

*Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk on the pool of underlying mortgages.*

*Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration | Contracts | Aggregate Face Value ($) | Market Value ($) | Net Unrealized Appreciation ($) |
|---|---|---|---|---|---|
| 10 year US Treasury Note | 9/22/2005 | 122 | 13,826,142 | 13,843,187 | 17,045 |

*At June 30, 2005, open futures contracts sold short were as follows:*

| Futures | Expiration | Contracts | Aggregate Face Value ($) | Market Value ($) | Net Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| 2 year US Treasury Note | 9/30/2005 | 59 | (12,245,249) | (12,253,562) | (8,313) |
| 10 year Interest Rate Swap | 9/19/2005 | 80 | (8,886,046) | (9,030,000) | (143,954) |
| **Total net unrealized depreciation** | | | | | **(152,267)** |

*Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association, Government National Mortgage Association and Federal Home Loan Mortgage Corp. issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.*

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments in securities, at value (cost $368,421,526) | | 369,476,106 |
| Receivable for investments sold | | 30,762,815 |
| Interest receivable | | 1,858,134 |
| Receivable for Portfolio shares sold | | 14,162 |
| Other assets | | 768 |
| Total assets | | 402,111,985 |

### Liabilities

| | | |
|---|---|---|
| Due to custodian bank | | 4,209,871 |
| Payable for investments purchased | | 24,486,870 |
| Payable for when issued and forward delivery securities | | 5,451,247 |
| Payable for investments purchased—mortgage dollar rolls | | 38,250,382 |
| Notes payable | | 9,950,000 |
| Deferred mortgage dollar roll income | | 46,286 |
| Payable for Portfolio shares redeemed | | 169,054 |
| Payable for daily variation margin on open futures contracts | | 2,719 |
| Accrued management fee | | 144,020 |
| Other accrued expenses and payables | | 97,423 |
| Total liabilities | | 82,807,872 |
| **Net assets, at value** | **$** | **319,304,113** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 4,746,697 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 1,054,580 |
| Futures | | (135,222) |
| Accumulated net realized gain (loss) | | 161,297 |
| Paid-in capital | | 313,476,761 |
| **Net assets, at value** | **$** | **319,304,113** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($270,285,361 ÷ 22,200,068 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.17** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($49,018,752 ÷ 4,029,336 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.17** |

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Interest | $ | 6,391,857 |
| Interest — Scudder Cash Management QP Trust | | 668,516 |
| Mortgage dollar roll income | | 431,662 |
| Total Income | | 7,492,035 |
| Expenses: | | |
| Management fee | | 879,363 |
| Custodian fees | | 11,833 |
| Distribution service fees (Class B) | | 60,246 |
| Record keeping fees (Class B) | | 31,941 |
| Auditing | | 28,347 |
| Legal | | 11,049 |
| Trustees' fees and expenses | | 5,917 |
| Reports to shareholders | | 35,781 |
| Other | | 17,947 |
| Total expenses, before expense reductions | | 1,082,424 |
| Expense reductions | | (1,420) |
| Total expenses, after expense reductions | | 1,081,004 |
| **Net investment income (loss)** | | **6,411,031** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 486,823 |
| Futures | | (8,591) |
| | | 478,232 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (994,098) |
| Futures | | (155,554) |
| | | (1,149,652) |
| **Net gain (loss) on investment transactions** | | **(671,420)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **5,739,611** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 6,411,031 | $ 12,286,972 |
| Net realized gain (loss) on investment transactions | 478,232 | 1,566,054 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (1,149,652) | (1,060,975) |
| Net increase (decrease) in net assets resulting from operations | 5,739,611 | 12,792,051 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (10,824,223) | (8,701,916) |
| Class B | (1,736,774) | (986,391) |
| Net realized gains | | |
| Class A | (2,099,899) | (2,734,888) |
| Class B | (374,454) | (359,519) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 19,995,978 | 20,190,555 |
| Reinvestment of distributions | 12,924,122 | 11,436,803 |
| Cost of shares redeemed | (34,758,435) | (97,935,807) |
| Net increase (decrease) in net assets from Class A share transactions | (1,838,335) | (66,308,449) |
| **Class B** | | |
| Proceeds from shares sold | 2,331,882 | 23,191,368 |
| Reinvestment of distributions | 2,111,228 | 1,345,911 |
| Cost of shares redeemed | (3,574,618) | (13,460,654) |
| Net increase (decrease) in net assets from Class B share transactions | 868,492 | 11,076,625 |
| **Increase (decrease) in net assets** | (10,265,582) | (55,222,487) |
| Net assets at beginning of period | 329,569,695 | 384,792,182 |
| Net assets at end of period (including undistributed net investment income of $4,746,697 and $10,896,663, respectively) | **$ 319,304,113** | **$ 329,569,695** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 22,309,252 | 27,631,433 |
| Shares sold | 1,636,471 | 1,635,527 |
| Shares issued to shareholders in reinvestment of distributions | 1,082,423 | 932,855 |
| Shares redeemed | (2,828,078) | (7,890,563) |
| Net increase (decrease) in Portfolio shares | (109,184) | (5,322,181) |
| Shares outstanding at end of period | **22,200,068** | **22,309,252** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,952,379 | 3,055,787 |
| Shares sold | 189,292 | 1,876,522 |
| Shares issued to shareholders in reinvestment of distributions | 176,819 | 109,781 |
| Shares redeemed | (289,154) | (1,089,711) |
| Net increase (decrease) in Portfolio shares | 76,957 | 896,592 |
| Shares outstanding at end of period | **4,029,336** | **3,952,379** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.55** | **$ 12.54** | **$ 12.84** | **$ 12.32** | **$ 11.96** | **$ 11.56** |
| *Income from investment operations:* | | | | | | |
| Net investment income[d] | .27 | .44 | .31 | .62 | .61 | .75 |
| Net realized and unrealized gain (loss) on investment transactions | (.05) | .03 | (.04) | .35 | .25 | .45 |
| **Total from investment operations** | .22 | .47 | .27 | .97 | .86 | 1.20 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.50) | (.35) | (.35) | (.45) | (.50) | (.80) |
| Net realized gains on investment transactions | (.10) | (.11) | (.22) | — | — | — |
| **Total distributions** | (.60) | (.46) | (.57) | (.45) | (.50) | (.80) |
| **Net asset value, end of period** | **$ 12.17** | **$ 12.55** | **$ 12.54** | **$ 12.84** | **$ 12.32** | **$ 11.96** |
| Total Return (%) | 1.82** | 3.75[f] | 2.26 | 8.05 | 7.48 | 10.93 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 270 | 280 | 347 | 551 | 305 | 152 |
| Ratio of expenses (%) | .62* | .61 | .61 | .59 | .60 | .61 |
| Ratio of net investment income (loss) (%) | 4.48* | 3.59 | 2.50 | 4.96 | 5.06 | 6.60 |
| Portfolio turnover rate (%) | 184[e]* | 226[e] | 511[e] | 534[e] | 334 | 173 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, gain/losses on paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by $.08, increase net realized and unrealized gains and losses per share by $.08 and decrease the ratio of net investment income to average net assets from 5.67% to 5.06%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

[c] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[d] *Based on average shares outstanding during the period.*

[e] *The portfolio turnover rate including mortgage dollar roll transactions was 358%, 391%, 536% and 651% for the periods ended June 30, 2005, December 31, 2004, December 31, 2003 and December 31, 2002, respectively.*

[f] *Reimbursement of $2,420 due to disposal of investments in violation of restrictions had no effect on total return.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 12.52** | **$ 12.51** | **$ 12.82** | **$ 12.36** |
| *Income from investment operations:* | | | | |
| Net investment income[c] | .25 | .40 | .27 | .31 |
| Net realized and unrealized gain (loss) on investment transactions | (.05) | .02 | (.04) | .15 |
| **Total from investment operations** | .20 | .42 | .23 | .46 |
| *Less distributions from:* | | | | |
| Net investment income | (.45) | (.30) | (.32) | — |
| Net realized gains on investment transactions | (.10) | (.11) | (.22) | — |
| **Total distributions** | (.55) | (.41) | (.54) | — |
| **Net asset value, end of period** | **$ 12.17** | **$ 12.52** | **$ 12.51** | **$ 12.82** |
| Total Return (%) | 1.65** | 3.36[e] | 1.83 | 3.72** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 49 | 49 | 38 | 3 |
| Ratio of expenses (%) | 1.00* | 1.00 | .98 | .84* |
| Ratio of net investment income (loss) (%) | 4.10* | 3.21 | 2.13 | 4.95* |
| Portfolio turnover rate (%) | 184[d]* | 226[d] | 511[d] | 534[d] |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

[d] *The portfolio turnover rate including mortgage dollar roll transactions was 358%, 391%, 536% and 651% for the periods ended June 30, 2005, December 31, 2004, December 31, 2003 and December 31, 2002, respectively.*

[e] *Reimbursement of $2,420 due to disposal of investments in violation of restrictions had no effect on total return.*

* *Annualized* ** *Not annualized*

## Scudder High Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,008.60 | $ 1,007.70 |
| Expenses Paid per $1,000* | $ 3.39 | $ 5.28 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.42 | $ 1,019.54 |
| Expenses Paid per $1,000* | $ 3.41 | $ 5.31 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — Scudder High Income Portfolio | .68% | 1.06% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder High Income Portfolio

High-yield bonds provided a positive absolute return during the period. Despite concerns about rising interest rates and higher commodity prices, the solid underpinnings of the market remained in place. Helped by the continued strength in the US economy, high-yield companies generally maintained sound financial positions. Perhaps the best indications of solid fundamentals in the high-yield market were the continuation of low default rates and the ongoing improvement in the ratio of rating upgrades to downgrades. Although the high-yield market's yield spread over Treasuries widened from 3.46% at the end of 2004 to 4.06% on June 30, 2005, it remained considerably below the long-term historical average of approximately 5.71%.

The portfolio produced a total return of 0.86% (Class A shares, unadjusted for contract charges), compared with 0.77% for the CS First Boston High Yield Index. We remained focused on adding value through fundamental research rather than making broad predictions about sector performance or interest rates. Our overweight in the land transportation sub sector coupled with overweight positions in Dobson Communications Corp. and OAO Gazprom were positive contributors to return. An underweight in Collins & Aikman Floor Cover Products also benefited performance. An overweight position in Tembec Industries Inc. and an overweight in the building materials sub sector detracted from results. The high-yield market continues to exhibit sound fundamentals, and defaults are expected to remain low. But low default rates will not last forever, meaning that good security selection is paramount at this point in the cycle.

Andrew P. Cestone

Lead Manager
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Additionally, the portfolio may invest in lower-quality and nonrated securities which present greater risk of loss of principal and interest than higher-quality securities. All of these factors may result in greater share price volatility. Bond investments are subject to interest–rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.*

*The CS First Boston High Yield Index (CSFB) is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's.*

*Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder High Income Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Corporate Bonds | 77% | 74% |
| Foreign Bonds — US$ Denominated | 15% | 20% |
| Cash Equivalents | 4% | 2% |
| Foreign Bonds — Non US$ Denominated | 1% | 2% |
| Asset Backed | 1% | 1% |
| Convertible Bonds | 1% | 1% |
| Stocks | 1% | — |
| | 100% | 100% |

| **Corporate and Foreign Bond Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Consumer Discretionary | 23% | 24% |
| Materials | 16% | 16% |
| Industrials | 16% | 14% |
| Telecommunication Services | 11% | 14% |
| Financials | 10% | 9% |
| Energy | 8% | 7% |
| Utilities | 7% | 5% |
| Consumer Staples | 3% | 4% |
| Information Technology | 2% | 2% |
| Health Care | 2% | 3% |
| Sovereign Bonds | 2% | 2% |
| | 100% | 100% |

*Asset allocation and corporate and foreign bond diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 51. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder High Income Portfolio

| | | Principal Amount ($)(f) | Value ($) |
|---|---|---|---|
| **Corporate Bonds 75.9%** | | | |
| **Consumer Discretionary 18.3%** | | | |
| 155 East Tropicana LLC/Finance, 144A, 8.75%, 4/1/2012 (d) | | 760,000 | 739,100 |
| Adesa, Inc., 7.625%, 6/15/2012 | | 355,000 | 360,325 |
| AMC Entertainment, Inc., 8.0%, 3/1/2014 (d) | | 1,815,000 | 1,610,812 |
| AutoNation, Inc., 9.0%, 8/1/2008 | | 585,000 | 639,113 |
| Aztar Corp., 7.875%, 6/15/2014 (d) | | 1,665,000 | 1,760,737 |
| Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011 (d) | | 390,000 | 389,513 |
| Cablevision Systems New York Group, Series B, 7.89%**, 4/1/2009 | | 610,000 | 611,525 |
| Caesars Entertainment, Inc.: | | | |
| 8.875%, 9/15/2008 | | 580,000 | 647,425 |
| 9.375%, 2/15/2007 | | 400,000 | 430,000 |
| Charter Communications Holdings LLC, Step-up Coupon 0% to 5/15/2006, 11.75% to 5/15/2011 | | 1,210,000 | 801,625 |
| 9.625%, 11/15/2009 (d) | | 1,980,000 | 1,480,050 |
| 10.25%, 9/15/2010 (d) | | 3,700,000 | 3,741,625 |
| Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (d) | | 1,245,000 | 983,550 |
| CSC Holdings, Inc.: | | | |
| 7.25%, 7/15/2008 | | 425,000 | 426,062 |
| 7.875%, 12/15/2007 | | 1,784,000 | 1,841,980 |
| Dex Media East LLC/Financial, 12.125%, 11/15/2012 | | 4,767,000 | 5,708,482 |
| Dura Operating Corp.: | | | |
| Series B, 8.625%, 4/15/2012 (d) | | 630,000 | 567,000 |
| Series B, 9.0%, 5/1/2009 | EUR | 180,000 | 150,301 |
| EchoStar DBS Corp., 6.625%, 10/1/2014 | | 305,000 | 301,188 |
| Foot Locker, Inc., 8.5%, 1/15/2022 | | 920,000 | 1,009,700 |
| Ford Motor Co., 7.45%, 7/16/2031 | | 185,000 | 154,441 |
| General Motors Corp., 8.25%, 7/15/2023 (d) | | 65,000 | 53,788 |
| Gregg Appliances, Inc., 144A, 9.0%, 2/1/2013 | | 650,000 | 609,375 |
| Imperial Home Decor Group, Inc., Series B, 11.0%, 3/15/2008* | | 1,050,000 | 0 |
| Interep National Radio Sales, Inc., Series B, 10.0%, 7/1/2008 (d) | | 860,000 | 714,875 |
| ITT Corp., 7.375%, 11/15/2015 | | 960,000 | 1,068,000 |
| Jacobs Entertainment, Inc.: | | | |
| 11.875%, 2/1/2009 | | 2,375,000 | 2,562,031 |
| 144A, 11.875%, 2/1/2009 | | 930,000 | 1,003,238 |
| Levi Strauss & Co., 7.73%**, 4/1/2012 | | 520,000 | 491,400 |
| Liberty Media Corp.: | | | |
| 7.875%, 7/15/2009 | | 45,000 | 48,023 |
| 8.5%, 7/15/2029 | | 45,000 | 45,464 |
| Mediacom LLC, 9.5%, 1/15/2013 (d) | | 1,340,000 | 1,336,650 |
| MGM MIRAGE: | | | |
| 8.375%, 2/1/2011 (d) | | 2,265,000 | 2,468,850 |
| 9.75%, 6/1/2007 | | 695,000 | 753,206 |
| MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010 | | 495,000 | 537,075 |
| NCL Corp., 144A, 10.625%, 7/15/2014 | | 1,105,000 | 1,163,013 |
| Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 | | 1,765,000 | 1,217,850 |
| Paxson Communications Corp.: | | | |
| Step-up Coupon, 0% to 1/15/2006, 12.25% to 1/15/2009 (d) | | 505,000 | 472,175 |
| 10.75%, 7/15/2008 (d) | | 475,000 | 467,875 |
| Petro Stopping Centers, 9.0%, 2/15/2012 | | 1,756,000 | 1,764,780 |
| Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (d) | | 890,000 | 943,400 |
| Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012 | | 1,458,000 | 1,414,260 |
| PRIMEDIA, Inc.: | | | |
| 8.638%**, 5/15/2010 | | 1,700,000 | 1,776,500 |
| 8.875%, 5/15/2011 | | 1,540,000 | 1,613,150 |
| Renaissance Media Group LLC, 10.0%, 4/15/2008 | | 955,000 | 945,450 |
| Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009 | | 1,790,000 | 2,038,362 |
| Restaurant Co., 11.25%, 5/15/2008 | | 1,427,408 | 1,427,408 |
| Schuler Homes, Inc., 10.5%, 7/15/2011 (d) | | 1,455,000 | 1,604,137 |
| Simmons Bedding Co.: | | | |
| 144A, Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014 | | 2,350,000 | 1,057,500 |
| 7.875%, 1/15/2014 (d) | | 470,000 | 404,200 |
| Sinclair Broadcast Group, Inc.: | | | |
| 8.0%, 3/15/2012 | | 1,400,000 | 1,435,000 |
| 8.75%, 12/15/2011 | | 3,090,000 | 3,244,500 |
| Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013 | | 695,000 | 701,950 |
| Toys "R" Us, Inc., 7.375%, 10/15/2018 | | 1,210,000 | 980,100 |
| Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (d) | | 3,025,000 | 2,953,156 |
| TRW Automotive, Inc.: | | | |
| 11.0%, 2/15/2013 (d) | | 2,010,000 | 2,311,500 |
| 11.75%, 2/15/2013 | EUR | 380,000 | 535,733 |
| United Auto Group, Inc., 9.625%, 3/15/2012 | | 1,495,000 | 1,595,913 |
| Wheeling Island Gaming, Inc., 10.125%, 12/15/2009 | | 475,000 | 503,500 |
| Williams Scotsman, Inc., 9.875%, 6/1/2007 | | 2,500,000 | 2,512,500 |
| Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014 | | 1,120,000 | 1,089,200 |
| XM Satellite Radio, Inc.: | | | |
| Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009 | | 1,886,934 | 1,948,259 |
| 12.0%, 6/15/2010 | | 75,000 | 84,375 |
| Young Broadcasting, Inc.: | | | |
| 8.75%, 1/15/2014 (d) | | 1,800,000 | 1,593,000 |
| 10.0%, 3/1/2011 | | 420,000 | 399,000 |
| | | | **76,244,275** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| **Consumer Staples 2.7%** | | |
| Agrilink Foods, Inc., 11.875%, 11/1/2008 | 588,000 | 607,845 |
| Alliance One International, Inc.: | | |
| 144A, 11.0%, 5/15/2012 | 1,405,000 | 1,447,150 |
| 144A, 12.75%, 11/15/2012 | 410,000 | 389,500 |
| Del Laboratories, Inc., 144A, 8.0%, 2/1/2012 | 575,000 | 494,500 |
| Duane Reade, Inc., 9.75%, 8/1/2011 | 635,000 | 517,525 |
| GNC Corp.: | | |
| 8.5%, 12/1/2010 | 515,000 | 412,000 |
| 144A, 8.625%, 1/15/2011 | 115,000 | 106,375 |
| National Beef Packing Co., 10.5%, 8/1/2011 (d) | 400,000 | 381,000 |
| North Atlantic Trading Co., 9.25%, 3/1/2012 | 2,405,000 | 1,815,775 |
| Pinnacle Foods Holding Corp., 8.25%, 12/1/2013 (d) | 755,000 | 675,725 |
| Rite Aid Corp., 11.25%, 7/1/2008 | 1,695,000 | 1,790,344 |
| Swift & Co.: | | |
| 10.125%, 10/1/2009 | 1,080,000 | 1,177,200 |
| 12.5%, 1/1/2010 | 265,000 | 295,806 |
| Viskase Co., Inc., 11.5%, 6/15/2011 | 1,120,000 | 1,209,600 |
| | | **11,320,345** |
| **Energy 4.8%** | | |
| Belden & Blake Corp., 8.75%, 7/15/2012 | 1,220,000 | 1,195,600 |
| Chesapeake Energy Corp., 6.875%, 1/15/2016 | 185,000 | 192,863 |
| CITGO Petroleum Corp., 6.0%, 10/15/2011 | 1,555,000 | 1,551,112 |
| Dynegy Holdings, Inc.: | | |
| 6.875%, 4/1/2011 (d) | 390,000 | 385,125 |
| 7.125%, 5/15/2018 | 1,075,000 | 1,023,937 |
| 7.625%, 10/15/2026 (d) | 705,000 | 671,513 |
| 8.75%, 2/15/2012 (d) | 185,000 | 201,650 |
| 144A, 9.875%, 7/15/2010 | 1,680,000 | 1,856,400 |
| El Paso Production Holding Corp., 7.75%, 6/1/2013 (d) | 1,095,000 | 1,168,912 |
| Key Energy Services, Inc., 6.375%, 5/1/2013 | 400,000 | 402,000 |
| Newpark Resources, Inc., Series B, 8.625%, 12/15/2007 | 1,625,000 | 1,608,750 |
| NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027 | 1,400,000 | 1,225,000 |
| Sonat, Inc., 7.0%, 2/1/2018 | 655,000 | 610,788 |
| Southern Natural Gas, 8.875%, 3/15/2010 (d) | 1,260,000 | 1,382,129 |
| Stone Energy Corp.: | | |
| 6.75%, 12/15/2014 | 815,000 | 792,588 |
| 8.25%, 12/15/2011 | 1,935,000 | 2,026,912 |
| Whiting Petroleum Corp.: | | |
| 7.25%, 5/1/2012 | 80,000 | 82,000 |
| 7.25%, 5/1/2013 (d) | 130,000 | 132,600 |
| Williams Companies, Inc.: | | |
| 8.125%, 3/15/2012 (d) | 2,305,000 | 2,616,175 |
| 8.75%, 3/15/2032 | 735,000 | 882,919 |
| | | **20,008,973** |

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| **Financials 8.3%** | | |
| AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012 | 405,000 | 273,375 |
| Affinia Group, Inc., 144A, 9.0%, 11/30/2014 | 1,625,000 | 1,365,000 |
| Alamosa Delaware, Inc., Step-up Coupon, 0% to 7/31/2005, 12.0% to 7/31/2009 | 668,000 | 736,470 |
| Alliance Mortgage Cycle Loan, 12.25%, 6/4/2010 | 750,000 | 750,000 |
| AmeriCredit Corp., 9.25%, 5/1/2009 | 2,970,000 | 3,163,050 |
| Atlantic Mutual Insurance Co., 144A, 8.15%, 2/15/2028 | 605,000 | 399,661 |
| BF Saul Real Estate Investment Trust, (REIT) 7.5%, 3/1/2014 | 515,000 | 533,025 |
| E*TRADE Financial Corp., 8.0%, 6/15/2011 | 1,175,000 | 1,236,688 |
| FINOVA Group, Inc., 7.5%, 11/15/2009 | 3,330,600 | 1,482,117 |
| Ford Motor Credit Co., 7.25%, 10/25/2011 | 1,945,000 | 1,871,611 |
| FRD Acquisition Co., Series B, 12.5%, 7/15/2004* | 210,000 | 0 |
| General Motors Acceptance Corp.: | | |
| 4.13%**, 3/20/2007 | 1,690,000 | 1,639,023 |
| 6.125%, 8/28/2007 | 400,000 | 395,887 |
| 6.75%, 12/1/2014 (d) | 700,000 | 626,272 |
| 6.875%, 9/15/2011 | 205,000 | 189,233 |
| 8.0%, 11/1/2031 | 6,925,000 | 6,179,475 |
| H&E Equipment/Finance, 11.125%, 6/15/2012 | 1,140,000 | 1,256,850 |
| Neff Rental/Neff Finance Corp., 144A, 11.25%, 6/15/2012 | 405,000 | 405,000 |
| Poster Financial Group, Inc., 8.75%, 12/1/2011 (d) | 1,220,000 | 1,241,350 |
| PXRE Capital Trust I, 8.85%, 2/1/2027 | 1,185,000 | 1,228,753 |
| Qwest Capital Funding, Inc., 6.5%, 11/15/2018 | 455,000 | 373,100 |
| R.H. Donnelly Finance Corp., 10.875%, 12/15/2012 | 890,000 | 1,034,625 |
| Radnor Holdings Corp., 11.0%, 3/15/2010 (d) | 1,850,000 | 1,262,625 |
| Rafaella Apparel Group, Inc., 144A, 11.25%, 6/15/2011 | 490,000 | 471,625 |
| RC Royalty Subordinated LLC, 7.0%, 1/1/2018 | 1,075,000 | 881,500 |
| TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027 | 1,470,000 | 1,190,700 |
| Triad Acquisition, 144A, 11.125%, 5/1/2013 | 740,000 | 749,250 |
| UGS Corp., 10.0%, 6/1/2012 | 1,490,000 | 1,653,900 |
| Universal City Development, 11.75%, 4/1/2010 | 1,980,000 | 2,272,050 |
| | | **34,862,215** |
| **Health Care 1.8%** | | |
| Cinacalcet Royalty Subordinated LLC, 8.0%, 3/30/2017 | 795,000 | 802,950 |
| Encore Medical Corp., 9.75%, 10/1/2012 | 425,000 | 412,250 |
| Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 (d) | 590,000 | 544,275 |
| HEALTHSOUTH Corp., 10.75%, 10/1/2008 | 1,540,000 | 1,601,600 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| InSight Health Services Corp., Series B, 9.875%, 11/1/2011 | 1,122,000 | 875,160 |
| Tenet Healthcare Corp., 144A, 9.25%, 2/1/2015 | 3,325,000 | 3,449,687 |
| | | **7,685,922** |
| **Industrials 12.1%** | | |
| Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007 | 2,353,000 | 2,491,239 |
| Allied Security Escrow Corp., 11.375%, 7/15/2011 | 1,455,000 | 1,418,625 |
| Allied Waste North America, Inc.: | | |
| Series B, 5.75%, 2/15/2011 | 2,615,000 | 2,445,025 |
| Series B, 9.25%, 9/1/2012 (d) | 1,510,000 | 1,630,800 |
| American Color Graphics, 10.0%, 6/15/2010 | 1,210,000 | 871,200 |
| Avondale Mills, Inc., 144A, 10.093%**, 7/1/2012 | 1,090,000 | 1,024,600 |
| Bear Creek Corp., 144A, 8.33%**, 3/1/2012 | 565,000 | 548,050 |
| Beazer Homes USA, Inc.: | | |
| 8.375%, 4/15/2012 | 860,000 | 922,350 |
| 8.625%, 5/15/2011 | 575,000 | 609,500 |
| Browning-Ferris Industries: | | |
| 7.4%, 9/15/2035 | 1,845,000 | 1,586,700 |
| 9.25%, 5/1/2021 | 430,000 | 435,375 |
| Cenveo Corp., 7.875%, 12/1/2013 (d) | 1,302,000 | 1,236,900 |
| Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 | 2,160,000 | 2,235,600 |
| Columbus McKinnon Corp., 10.0%, 8/1/2010 | 810,000 | 878,850 |
| Compression Polymers Corp.: | | |
| 144A, 10.46%**, 7/1/2012 | 445,000 | 445,000 |
| 144A, 10.5%, 7/1/2013 | 880,000 | 880,000 |
| Congoleum Corp., 8.625%, 8/1/2008* | 850,000 | 830,875 |
| Cornell Companies, Inc., 10.75%, 7/1/2012 | 1,255,000 | 1,302,063 |
| Dana Corp., 7.0%, 3/1/2029 | 1,408,000 | 1,230,036 |
| Erico International Corp., 8.875%, 3/1/2012 | 475,000 | 482,125 |
| Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012 (d) | 1,000,000 | 925,000 |
| HydroChem Industrial Services, Inc., 144A, 9.25%, 2/15/2013 | 205,000 | 189,625 |
| ISP Chemco, Inc., Series B, 10.25%, 7/1/2011 | 2,425,000 | 2,643,250 |
| K. Hovnanian Enterprises, Inc., 8.875%, 4/1/2012 | 1,250,000 | 1,353,125 |
| Kansas City Southern: | | |
| 7.5%, 6/15/2009 | 405,000 | 418,162 |
| 9.5%, 10/1/2008 | 2,745,000 | 2,992,050 |
| Kinetek, Inc., Series D, 10.75%, 11/15/2006 | 2,040,000 | 1,856,400 |
| Laidlaw International, Inc., 10.75%, 6/15/2011 | 1,320,000 | 1,546,618 |
| Metaldyne Corp., 144A, 10.0%, 11/1/2013 (d) | 1,250,000 | 1,025,000 |
| Millennium America, Inc., 9.25%, 6/15/2008 | 2,300,000 | 2,489,750 |
| NTK Holdings, Inc., 144A, Step-up Coupon, 0% to 9/1/2009, 10.75% to 3/1/2014 (d) | 1,035,000 | 486,450 |
| Rainbow National Services LLC, 144A, 10.375%, 9/1/2014 | 1,100,000 | 1,265,000 |
| Remington Arms Co., Inc., 10.5%, 2/1/2011 (d) | 600,000 | 567,000 |
| Sea Containers Ltd., Series B, 10.75%, 10/15/2006 | 210,000 | 212,100 |
| Securus Technologies, Inc., 144A, 11.0%, 9/1/2011 | 865,000 | 730,925 |
| Ship Finance International Ltd., 8.5%, 12/15/2013 | 2,030,000 | 1,931,037 |
| Technical Olympic USA, Inc.: | | |
| 7.5%, 3/15/2011 | 625,000 | 581,250 |
| 10.375%, 7/1/2012 | 2,160,000 | 2,257,200 |
| The Brickman Group Ltd., Series B, 11.75%, 12/15/2009 | 870,000 | 985,275 |
| United Rentals North America, Inc., 7.0%, 2/15/2014 (d) | 1,910,000 | 1,819,275 |
| Xerox Capital Trust I, 8.0%, 2/1/2027 | 650,000 | 672,750 |
| | | **50,452,155** |
| **Information Technology 2.3%** | | |
| Activant Solutions, Inc.: | | |
| 144A, 8.904%**, 4/1/2010 | 150,000 | 155,250 |
| 10.5%, 6/15/2011 | 1,070,000 | 1,160,950 |
| Eschelon Operating Co.: | | |
| 8.375%, 3/15/2010 | 255,000 | 221,850 |
| 8.375%, 3/15/2010 (d) | 355,000 | 308,850 |
| Lucent Technologies, Inc.: | | |
| 6.45%, 3/15/2029 | 2,370,000 | 2,121,150 |
| 7.25%, 7/15/2006 (d) | 205,000 | 209,612 |
| Sanmina-SCI Corp.: | | |
| 144A, 6.75%, 3/1/2013 (d) | 3,070,000 | 2,931,850 |
| 10.375%, 1/15/2010 | 1,813,000 | 2,012,430 |
| Viasystems, Inc., 10.5%, 1/15/2011 | 435,000 | 400,200 |
| | | **9,522,142** |
| **Materials 11.5%** | | |
| Aqua Chemical, Inc., 11.25%, 7/1/2008 | 525,000 | 441,000 |
| ARCO Chemical Co., 9.8%, 2/1/2020 | 4,385,000 | 4,911,200 |
| Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014 | 3,000,000 | 1,905,000 |
| Caraustar Industries, Inc., 9.875%, 4/1/2011 (d) | 2,705,000 | 2,725,287 |
| Constar International, Inc.: | | |
| 144A, 6.643%**, 2/15/2012 | 535,000 | 510,925 |
| 11.0%, 12/1/2012 (d) | 150,000 | 119,250 |
| Dayton Superior Corp.: | | |
| 10.75%, 9/15/2008 | 925,000 | 962,000 |
| 13.0%, 6/15/2009 (d) | 1,955,000 | 1,720,400 |
| Edgen Acquisition Corp., 144A, 9.875%, 2/1/2011 | 635,000 | 615,950 |
| GEO Specialty Chemicals, Inc., 11.62%, 12/31/2009 | 1,029,000 | 1,090,740 |
| Georgia-Pacific Corp.: | | |
| 8.0%, 1/15/2024 | 2,335,000 | 2,685,250 |
| 9.375%, 2/1/2013 | 1,750,000 | 1,979,687 |
| Hercules, Inc., 6.75%, 10/15/2029 | 955,000 | 926,350 |
| Huntsman Advanced Materials LLC, 11.0%, 7/15/2010 | 1,525,000 | 1,723,250 |
| Huntsman International LLC, 10.125%, 7/1/2009 EUR | 740,000 | 929,092 |
| Huntsman LLC, 11.625%, 10/15/2010 (d) | 2,102,000 | 2,461,968 |

*The accompanying notes are an integral part of the financial statements.*

| | | Principal Amount ($)(f) | Value ($) |
|---|---|---|---|
| IMC Global, Inc.: | | | |
| 7.375%, 8/1/2018 | | 425,000 | 425,000 |
| 10.875%, 8/1/2013 | | 1,320,000 | 1,547,700 |
| Intermet Corp., 9.75%, 6/15/2009* (d) | | 180,000 | 77,850 |
| MMI Products, Inc., Series B, 11.25%, 4/15/2007 | | 1,260,000 | 1,244,250 |
| Neenah Foundry Co.: | | | |
| 144A, 11.0%, 9/30/2010 | | 2,227,000 | 2,416,295 |
| 144A, 13.0%, 9/30/2013 | | 1,102,460 | 1,091,435 |
| NewPage Corp., 144A, 9.46%**, 5/1/2012 (d) | | 1,025,000 | 1,027,563 |
| Omnova Solutions, Inc., 11.25%, 6/1/2010 | | 2,280,000 | 2,394,000 |
| Oregon Steel Mills, Inc., 10.0%, 7/15/2009 | | 635,000 | 684,213 |
| Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010* (d) | | 2,091,513 | 1,045,757 |
| Portola Packaging, Inc., 8.25%, 2/1/2012 (d) | | 1,675,000 | 1,139,000 |
| Rockwood Specialties Group, Inc.: | | | |
| 144A, 7.625%, 11/15/2014 | EUR | 860,000 | 1,051,136 |
| 10.625%, 5/15/2011 | | 145,000 | 162,038 |
| Sheffield Steel Corp., 11.375%, 8/15/2011 | | 627,000 | 608,190 |
| Texas Industries, Inc., 10.25%, 6/15/2011 | | 1,860,000 | 2,155,275 |
| TriMas Corp., 9.875%, 6/15/2012 | | 2,791,000 | 2,344,440 |
| UAP Holding Corp., Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012 (d) | | 1,135,000 | 930,700 |
| United States Steel Corp., 9.75%, 5/15/2010 | | 1,694,000 | 1,829,520 |
| | | | **47,881,711** |

### Telecommunication Services 7.3%

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| AirGate PCS, Inc., 6.891%**, 10/15/2011 | 505,000 | 516,363 |
| American Cellular Corp., Series B, 10.0%, 8/1/2011 (d) | 1,440,000 | 1,461,600 |
| AT&T Corp.: | | |
| 9.05%, 11/15/2011 | 1,430,000 | 1,648,075 |
| 9.75%, 11/15/2031 | 1,590,000 | 2,068,987 |
| Cincinnati Bell, Inc.: | | |
| 7.25%, 7/15/2013 (d) | 460,000 | 483,000 |
| 8.375%, 1/15/2014 (d) | 3,825,000 | 3,920,625 |
| Dobson Communications Corp., 8.875%, 10/1/2013 | 725,000 | 663,375 |
| Insight Midwest LP, 9.75%, 10/1/2009 | 615,000 | 637,294 |
| LCI International, Inc., 7.25%, 6/15/2007 | 1,640,000 | 1,590,800 |
| Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011 (d) | 280,000 | 235,900 |
| MCI, Inc., 8.735%, 5/1/2014 | 2,060,000 | 2,309,775 |
| Nextel Communications, Inc.: | | |
| 5.95%, 3/15/2014 | 1,410,000 | 1,464,637 |
| 7.375%, 8/1/2015 | 3,765,000 | 4,066,200 |
| Nextel Partners, Inc., 8.125%, 7/1/2011 | 885,000 | 960,225 |
| Northern Telecom Capital, 7.875%, 6/15/2026 | 235,000 | 235,000 |
| Qwest Corp.: | | |
| 144A, 6.671%**, 6/15/2013 | 575,000 | 588,656 |
| 7.25%, 9/15/2025 | 1,470,000 | 1,374,450 |
| Qwest Services Corp.: | | |
| 13.5%, 12/15/2010 | 3,085,000 | 3,563,175 |
| 14.0%, 12/15/2014 | 480,000 | 582,000 |
| Rural Cellular Corp., 9.875%, 2/1/2010 | 100,000 | 103,250 |
| SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011 | 317,000 | 291,640 |
| Triton PCS, Inc., 8.5%, 6/1/2013 (d) | 335,000 | 309,038 |
| Ubiquitel Operating Co., 9.875%, 3/1/2011 | 410,000 | 449,975 |
| US Unwired, Inc., Series B, 10.0%, 6/15/2012 | 750,000 | 834,375 |
| Western Wireless Corp., 9.25%, 7/15/2013 | 200,000 | 227,750 |
| | | **30,586,165** |

### Utilities 6.8%

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| AES Corp., 144A, 8.75%, 5/15/2013 | 2,255,000 | 2,519,962 |
| Allegheny Energy Supply Co. LLC: | | |
| 144A, 8.25%, 4/15/2012 (d) | 3,010,000 | 3,371,200 |
| Series A, 144A, 10.25%, 11/15/2007 | 1,265,000 | 1,391,500 |
| Series B, 144A, 13.0%, 11/15/2007 | 455,000 | 502,206 |
| Calpine Corp.: | | |
| 7.625%, 4/15/2006 | 405,000 | 379,688 |
| 144A, 8.5%, 7/15/2010 (d) | 1,745,000 | 1,343,650 |
| CMS Energy Corp.: | | |
| 8.5%, 4/15/2011 (d) | 1,515,000 | 1,689,225 |
| 9.875%, 10/15/2007 | 2,295,000 | 2,501,550 |
| DPL, Inc., 6.875%, 9/1/2011 | 1,170,000 | 1,263,600 |
| Mission Energy Holding Co., 13.5%, 7/15/2008 | 3,960,000 | 4,702,500 |
| NorthWestern Corp., 144A, 5.875%, 11/1/2014 | 345,000 | 353,625 |
| NRG Energy, Inc., 144A, 8.0%, 12/15/2013 | 3,245,000 | 3,423,475 |
| PSE&G Energy Holdings LLC: | | |
| 8.5%, 6/15/2011 | 1,340,000 | 1,460,600 |
| 10.0%, 10/1/2009 | 2,350,000 | 2,637,875 |
| Tenaska Alabama Partners LP, 144A, 7.0%, 6/30/2021 | 750,000 | 759,375 |
| | | **28,300,031** |
| **Total Corporate Bonds** (Cost $322,420,841) | | **316,863,934** |

## Asset Backed 0.6%

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| Golden Tree High Yield Opportunities LP, "D1", Series 1, 13.054%, 10/31/2007 (Cost $2,500,000) | 2,500,000 | **2,618,500** |

## Foreign Bonds — US$ Denominated 14.9%

### Consumer Discretionary 2.3%

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| Jafra Cosmetics International, Inc., 10.75%, 5/15/2011 | 2,060,000 | 2,307,200 |
| Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014 | 1,490,000 | 1,616,650 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| Shaw Communications, Inc., 8.25%, 4/11/2010 | 2,495,000 | 2,769,450 |
| Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014 | 2,020,000 | 1,570,550 |
| Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011 | 170,000 | 164,900 |
| Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013 (d) | 1,470,000 | 1,227,450 |
| | | **9,656,200** |
| **Consumer Staples 0.4%** | | |
| Burns Philp Capital Property Ltd., 10.75%, 2/15/2011 | 1,210,000 | 1,334,025 |
| Grupo Cosan SA, 144A, 9.0%, 11/1/2009 | 375,000 | 388,125 |
| | | **1,722,150** |
| **Energy 2.4%** | | |
| Luscar Coal Ltd., 9.75%, 10/15/2011 | 1,480,000 | 1,628,000 |
| OAO Gazprom, 144A, 9.625%, 3/1/2013 | 1,965,000 | 2,409,581 |
| Petroleum Geo-Services ASA, 10.0%, 11/5/2010 | 4,620,066 | 5,174,474 |
| Secunda International Ltd., 11.141%**, 9/1/2012 | 893,000 | 870,675 |
| | | **10,082,730** |
| **Financials 0.6%** | | |
| Conproca SA de CV, 12.0%, 6/16/2010 | 600,000 | 741,000 |
| Eircom Funding, 8.25%, 8/15/2013 | 1,045,000 | 1,133,825 |
| New ASAT (Finance) Ltd., 9.25%, 2/1/2011 | 566,000 | 472,610 |
| | | **2,347,435** |
| **Health Care 0.3%** | | |
| Biovail Corp., 7.875%, 4/1/2010 (d) | 1,330,000 | **1,359,925** |
| **Industrials 2.3%** | | |
| CP Ships Ltd., 10.375%, 7/15/2012 | 1,435,000 | 1,607,200 |
| Grupo Transportacion Ferroviaria Mexicana SA de CV: | | |
| 144A, 9.375%, 5/1/2012 | 1,260,000 | 1,310,400 |
| 10.25%, 6/15/2007 (d) | 2,815,000 | 3,012,050 |
| 12.5%, 6/15/2012 | 836,000 | 978,120 |
| J. Ray McDermott SA, 144A, 11.5%, 12/15/2013 | 1,070,000 | 1,198,400 |
| LeGrand SA, 8.5%, 2/15/2025 | 750,000 | 907,500 |
| Stena AB, 9.625%, 12/1/2012 | 595,000 | 648,550 |
| Supercanal Holding SA, 11.5%, 5/15/2005* | 100,000 | 15,000 |
| | | **9,677,220** |
| **Materials 3.1%** | | |
| Alrosa Finance SA, 144A, 8.875%, 11/17/2014 | 530,000 | 598,900 |
| Cascades, Inc.: | | |
| 7.25%, 2/15/2013 | 1,430,000 | 1,397,825 |
| 144A, 7.25%, 2/15/2013 | 95,000 | 92,862 |
| Crown Euro Holdings SA, 10.875%, 3/1/2013 | 685,000 | 804,875 |
| ISPAT Inland ULC, 9.75%, 4/1/2014 | 1,460,000 | 1,700,900 |
| Rhodia SA, 8.875%, 6/1/2011 (d) | 2,970,000 | 2,858,625 |

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| Sino-Forest Corp., 144A, 9.125%, 8/17/2011 | 35,000 | 38,238 |
| Tembec Industries, Inc.: | | |
| 8.5%, 2/1/2011 (d) | 4,780,000 | 3,692,550 |
| 8.625%, 6/30/2009 (d) | 2,320,000 | 1,890,800 |
| | | **13,075,575** |
| **Sovereign Bonds 0.8%** | | |
| Dominican Republic, 144A, 9.04%, 1/23/2018 | 200,000 | 208,500 |
| Federative Republic of Brazil, 8.875%, 10/14/2019 | 770,000 | 816,200 |
| Republic of Argentina, 8.28%, 12/31/2033 (d) | 2,322,297 | 2,136,513 |
| Republic of Venezuela, 10.75%, 9/19/2013 (d) | 25,000 | 29,263 |
| | | **3,190,476** |
| **Telecommunication Services 2.7%** | | |
| Alestra SA de RL de CV, 8.0%, 6/30/2010 | 405,000 | 364,500 |
| Axtel SA, 11.0%, 12/15/2013 | 695,000 | 757,550 |
| Embratel, Series B, 11.0%, 12/15/2008 (d) | 676,000 | 768,950 |
| Global Crossing UK Finance, 144A, 10.75%, 12/15/2014 | 1,005,000 | 912,037 |
| Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004* | 240,000 | 182,400 |
| Intelsat Bermuda Ltd., 144A, 7.805%**, 1/15/2012 | 645,000 | 656,288 |
| Millicom International Cellular SA, 10.0%, 12/1/2013 | 1,900,000 | 1,890,500 |
| Mobifon Holdings BV, 12.5%, 7/31/2010 | 1,900,000 | 2,303,750 |
| Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010 | 185,000 | 191,938 |
| Nortel Networks Corp., 6.875%, 9/1/2023 | 430,000 | 402,050 |
| Nortel Networks Ltd., 6.125%, 2/15/2006 (d) | 2,585,000 | 2,601,156 |
| | | **11,031,119** |
| **Total Foreign Bonds — US$ Denominated** (Cost $62,176,709) | | **62,142,830** |

## Foreign Bonds — Non US$ Denominated 1.5%

| | | Principal Amount ($)(f) | Value ($) |
|---|---|---|---|
| **Consumer Discretionary 0.4%** | | | |
| IESY Repository GMBH, 144A, 8.75%, 2/15/2015 | EUR | 710,000 | 803,358 |
| Victoria Acquisition III BV, 144A, 7.875%, 10/1/2014 | EUR | 795,000 | 875,483 |
| | | | **1,678,841** |
| **Industrials 0.2%** | | | |
| Grohe Holdings GmbH, 144A, 8.625%, 10/1/2014 | EUR | 815,000 | **914,768** |
| **Sovereign Bonds 0.9%** | | | |
| Mexican Bonds, Series MI-10, 8.0%, 12/19/2013 | MXN | 13,560,500 | 1,162,711 |
| Republic of Argentina, 7.82%, 12/31/2033 | EUR | 2,316,897 | 2,505,188 |
| | | | **3,667,899** |
| **Total Foreign Bonds — Non US$ Denominated** (Cost $6,423,551) | | | **6,261,508** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(f) | Value ($) |
|---|---|---|
| **Convertible Bonds 0.6%** | | |
| DIMON, Inc., 6.25%, 3/31/2007 | 1,600,000 | 1,600,000 |
| HIH Capital Ltd.: | | |
| 144A, Series DOM, 7.5%, 9/25/2006 | 665,000 | 658,350 |
| 144A, Series EURO, 7.5%, 9/25/2006 | 110,000 | 108,900 |
| **Total Convertible Bonds** (Cost $2,264,412) | | **2,367,250** |

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks* 0.2%** | | |
| Catalina Restaurant Group, Inc. | 3,870 | 6,192 |
| GEO Specialty Chemicals, Inc. | 24,225 | 314,925 |
| GEO Specialty Chemicals, Inc., 144A | 2,206 | 33,090 |
| IMPSAT Fiber Networks, Inc. | 33,652 | 188,451 |
| Oxford Automotive, Inc. | 403,263 | 112,914 |
| **Total Common Stocks** (Cost $2,229,150) | | **655,572** |
| **Warrants* 0.0%** | | |
| Dayton Superior Corp., 144A | 95 | 1 |
| DeCrane Aircraft Holdings, Inc., 144A | 1,350 | 0 |
| Destia Communications, Inc., 144A | 1,260 | 0 |
| TravelCenters of America, Inc. | 345 | 43 |
| UIH Australia Pacific, Inc. | 750 | 0 |
| **Total Warrants** (Cost $1,422) | | **44** |
| **Preferred Stocks 0.6%** | | |
| Paxson Communications Corp., 14.25% (PIK) (d) | 185 | 1,195,842 |
| TNP Enterprises, Inc., 14.5%, "D" (PIK) | 997 | 1,129,102 |
| **Total Preferred Stocks** (Cost $2,852,577) | | **2,324,944** |

| | Shares | Value ($) |
|---|---|---|
| **Other Investments* 0.3%** | | |
| Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 | 1,730,000 | 1,349,400 |
| SpinCycle, Inc., "F" (Common Stock Unit) | 69 | 76 |
| SpinCycle, Inc., (Common Stock Unit) | 9,913 | 10,904 |
| **Total Other Investments** (Cost $1,456,664) | | **1,360,380** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Loan Participations 0.8%** | | |
| Citigroup Global (Severstal), 8.625%, 2/24/2009 | 392,000 | 403,211 |
| Intermet Corp., PRIME plus 3.25%, 9.0%**, 3/31/2009 | 3,000,000 | 2,910,001 |
| **Total Loan Participations** (Cost $3,233,172) | | **3,313,212** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 16.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $67,624,792) | 67,624,792 | **67,624,792** |
| **Cash Equivalents 3.6%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $14,979,156) | 14,979,156 | **14,979,156** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $488,162,446) (a) | 115.2 | **480,512,122** |
| **Other Assets and Liabilities, Net** | (15.2) | **(63,243,140)** |
| **Net Assets** | 100.0 | **417,268,982** |

## Notes to Scudder High Income Portfolio of Investments

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest. The following table represents bonds that are in default.*

| Security | Coupon | Maturity Date | Principal Amount | | Acquisition Cost ($) | Value ($) |
|---|---|---|---|---|---|---|
| Congoleum Corp. | 8.625 | 8/1/2008 | 850,000 | USD | 708,009 | 830,875 |
| FRD Acquisition Co. | 12.5 | 7/15/2004 | 210,000 | USD | 0 | 0 |
| Grupo Iusacell SA de CV | 10.0 | 7/15/2004 | 240,000 | USD | 144,738 | 182,400 |
| Imperial Home Decor Group, Inc. | 11.0 | 3/15/2008 | 1,050,000 | USD | 1,029,755 | 0 |
| Intermet Corp. | 9.75 | 6/15/2009 | 180,000 | USD | 73,800 | 77,850 |
| Oxford Automotive, Inc. | 12.0 | 10/15/2010 | 2,091,513 | USD | 1,423,950 | 1,045,757 |
| Supercanal Holding SA | 11.5 | 5/15/2005 | 100,000 | USD | 10,000 | 15,000 |
| | | | | | **$ 3,390,252** | **$ 2,151,882** |

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of June 30, 2005.*

*The accompanying notes are an integral part of the financial statements.*

*(a) The cost for federal income tax purposes was $488,210,710. At June 30, 2005, net unrealized depreciation for all securities based on tax cost was $7,698,588. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,828,365 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $14,526,953.*

*(b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

*(c) Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

*(d) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005, amounted to $66,185,536, which is 15.9% of net assets.*

*(e) Represents collateral held in connection with securities lending.*

*(f) Principal amount stated in US dollars unless otherwise noted.*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*PIK denotes that interest and dividend is paid in-kind.*

| **Currency Abbreviations** | |
|---|---|
| EUR | Euro |
| MXN | Mexican Peso |

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $405,558,498) — including $66,185,536 of securities loaned | $ | 397,908,174 |
| Investment in Scudder Daily Assets Fund Institutional (cost $67,624,792)* | | 67,624,792 |
| Investment in Scudder Cash Management QP Trust (cost $14,979,156) | | 14,979,156 |
| Total investments in securities, at value (cost $488,162,446) | | 480,512,122 |
| Foreign currency, at value (cost $671,382) | | 659,439 |
| Receivable for investments sold | | 4,701,377 |
| Interest receivable | | 8,759,388 |
| Receivable for Portfolio shares sold | | 4,822 |
| Unrealized appreciation on forward foreign currency exchange contracts | | 335,265 |
| Other assets | | 6,644 |
| Total assets | | 494,979,057 |

### Liabilities

| | | |
|---|---|---|
| Due to custodian bank | | 676,048 |
| Payable for investments purchased | | 8,564,027 |
| Payable for Portfolio shares redeemed | | 468,475 |
| Payable upon return of securities loaned | | 67,624,792 |
| Unrealized depreciation on forward foreign currency exchange contracts | | 27,507 |
| Accrued management fee | | 202,792 |
| Other accrued expenses and payables | | 146,434 |
| Total liabilities | | 77,710,075 |
| **Net assets, at value** | **$** | **417,268,982** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 12,365,594 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | (7,650,324) |
| Foreign currency related transactions | | 299,148 |
| Accumulated net realized gain (loss) | | (111,954,711) |
| Paid-in capital | | 524,209,275 |
| **Net assets, at value** | **$** | **417,268,982** |

### Class A

| | | |
|---|---|---|
| **Net Asset Value,** offering and redemption price per share ($361,099,658 ÷ 45,175,065 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **7.99** |

### Class B

| | | |
|---|---|---|
| **Net Asset Value,** offering and redemption price per share ($56,169,324 ÷ 7,016,221 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **8.01** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 165,102 |
| Interest | | 17,914,730 |
| Interest — Scudder Cash Management QP Trust | | 103,960 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 169,048 |
| Total Income | | 18,352,840 |
| Expenses: | | |
| Management fee | | 1,248,725 |
| Custodian fees | | 23,149 |
| Distribution service fees (Class B) | | 68,995 |
| Record keeping fees (Class B) | | 34,824 |
| Auditing | | 27,213 |
| Legal | | 10,313 |
| Trustees' fees and expenses | | 4,881 |
| Reports to shareholders | | 47,688 |
| Other | | 62,186 |
| Total expenses, before expense reductions | | 1,527,974 |
| Expense reductions | | (4,524) |
| Total expenses, after expense reductions | | 1,523,450 |
| **Net investment income (loss)** | | **16,829,390** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 1,060,716 |
| Foreign currency related transactions | | 12,562 |
| | | 1,073,278 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (14,980,947) |
| Foreign currency related transactions | | 1,166,680 |
| | | (13,814,267) |
| **Net gain (loss) on investment transactions** | | **(12,740,989)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **4,088,401** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 16,829,390 | $ 34,238,642 |
| Net realized gain (loss) on investment transactions | 1,073,278 | 9,470,236 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (13,814,267) | 5,291,376 |
| Net increase (decrease) in net assets resulting from operations | 4,088,401 | 49,000,254 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (33,565,659) | (29,352,659) |
| Class B | (5,270,980) | (3,056,845) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 39,408,315 | 56,878,387 |
| Reinvestment of distributions | 33,565,659 | 29,352,659 |
| Cost of shares redeemed | (75,402,406) | (119,443,412) |
| Net increase (decrease) in net assets from Class A share transactions | (2,428,432) | (33,212,366) |
| **Class B** | | |
| Proceeds from shares sold | 8,746,492 | 37,277,037 |
| Reinvestment of distributions | 5,270,980 | 3,056,845 |
| Cost of shares redeemed | (9,771,262) | (23,434,006) |
| Net increase (decrease) in net assets from Class B share transactions | 4,246,210 | 16,899,876 |
| **Increase (decrease) in net assets** | (32,930,460) | 278,260 |
| Net assets at beginning of period | 450,199,442 | 449,921,182 |
| Net assets at end of period (including undistributed net investment income of $12,365,594 and $34,372,843, respectively) | **$ 417,268,982** | **$ 450,199,442** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 44,826,321 | 48,977,744 |
| Shares sold | 4,899,884 | 6,841,589 |
| Shares issued to shareholders in reinvestment of distributions | 4,275,880 | 3,696,808 |
| Shares redeemed | (8,827,020) | (14,689,820) |
| Net increase (decrease) in Portfolio shares | 348,744 | (4,151,423) |
| Shares outstanding at end of period | **45,175,065** | **44,826,321** |
| **Class B** | | |
| Shares outstanding at beginning of period | 6,474,194 | 4,421,727 |
| Shares sold | 1,047,378 | 4,504,371 |
| Shares issued to shareholders in reinvestment of distributions | 669,756 | 384,026 |
| Shares redeemed | (1,175,107) | (2,835,930) |
| Net increase (decrease) in Portfolio shares | 542,027 | 2,052,467 |
| Shares outstanding at end of period | **7,016,221** | **6,474,194** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 8.78** | **$ 8.43** | **$ 7.40** | **$ 8.13** | **$ 9.16** | **$ 11.46** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[d] | .34 | .67 | .67 | .75 | .84 | 1.14 |
| Net realized and unrealized gain (loss) on investment transactions | (.28) | .31 | 1.03 | (.74) | (.59) | (2.04) |
| **Total from investment operations** | .06 | .98 | 1.70 | .01 | .25 | (.90) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.85) | (.63) | (.67) | (.74) | (1.28) | (1.40) |
| **Net asset value, end of period** | **$ 7.99** | **$ 8.78** | **$ 8.43** | **$ 7.40** | **$ 8.13** | **$ 9.16** |
| Total Return (%) | .86** | 12.42 | 24.62 | (.30) | 2.63 | (8.68) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 361 | 393 | 413 | 329 | 335 | 309 |
| Ratio of expenses (%) | .68* | .66 | .67 | .66 | .70 | .68 |
| Ratio of net investment income (%) | 8.13* | 8.11 | 8.62 | 10.07 | 9.89 | 11.23 |
| Portfolio turnover rate (%) | 130* | 162 | 165 | 138 | 77 | 54 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by $.08, increase net realized and unrealized gains and losses per share by $.08 and decrease the ratio of net investment income to average net assets from 10.74% to 9.89%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

[c] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[d] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 8.77** | **$ 8.41** | **$ 7.39** | **$ 7.21** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income[c] | .32 | .64 | .64 | .31 |
| Net realized and unrealized gain (loss) on investment transactions | (.27) | .32 | 1.03 | (.13) |
| **Total from investment operations** | .05 | .96 | 1.67 | .18 |
| *Less distributions from:* | | | | |
| Net investment income | (.81) | (.60) | (.65) | — |
| **Net asset value, end of period** | **$ 8.01** | **$ 8.77** | **$ 8.41** | **$ 7.39** |
| Total Return (%) | .77** | 12.08 | 24.14 | 2.50** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 56 | 57 | 37 | 1 |
| Ratio of expenses (%) | 1.06* | 1.06 | 1.06 | .92* |
| Ratio of net investment income (%) | 7.75* | 7.71 | 8.23 | 8.78* |
| Portfolio turnover rate (%) | 130* | 162 | 165 | 138 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Scudder International Select Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 990.40 | $ 988.10 |
| Expenses Paid per $1,000* | $ 4.34 | $ 6.11 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.43 | $ 1,018.65 |
| Expenses Paid per $1,000* | $ 4.41 | $ 6.21 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder International Select Equity Portfolio | .88% | 1.24% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder International Select Equity Portfolio

International equities delivered lackluster returns for US dollar investors during the first half of 2005. Although international stocks — especially emerging markets — fared well in local currency terms, the strength of the US dollar erased the majority of those gains and left only the emerging markets in positive territory. For the semiannual period ended June 30, 2005, the portfolio's Class A shares' return, unadjusted for contract charges, was –0.96%, underperforming the –0.04% return of the MSCI EAFE + Emerging Markets Index.

Our positioning in the financials sector was the largest detractor, as the portfolio's real estate linked stocks suffered from the specter of rising interest rates in some regions and continued economic weakness in others. Performance was helped by strong stock selection, particularly in the information technology and health care sectors. Within information technology, stock-specific news lifted the shares of Indra Sistemas SA (Spain) and Samsung Electronics Co., Ltd. (Korea), both of which announced positive outlooks for 2005. In health care, Roche Holding AG (Switzerland) rose due to positive results for a study relating to its breast cancer drug Herceptin and estimates that annual sales of the drug may double to $1 billion a year.

During the first half of the year, stock prices were influenced by concerns about slower global growth, sustained high oil prices and rising inflation expectations. We anticipate that these risks are short term in nature, as increasing globalization and rising productivity should continue to act as a counterbalance. In the short term, however, we believe the fund is positioned to benefit from these forces through its holdings in the energy and materials sectors.

Alex Tedder

Lead Portfolio Manager

Matthias Knerr, CFA
Sangita Uberoi, CFA

Managers
Deutsche Asset Management Investment Services Ltd., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The MSCI EAFE + EM Index (Morgan Stanley Capital International Europe, Australasia, Far East + Emerging Markets Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and converts to US dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder International Select Equity Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 100% | 99% |
| Cash Equivalents | — | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 25% | 27% |
| Consumer Discretionary | 13% | 14% |
| Industrials | 12% | 13% |
| Energy | 11% | 10% |
| Materials | 10% | 5% |
| Information Technology | 8% | 8% |
| Health Care | 8% | 8% |
| Telecommunication Services | 5% | 8% |
| Utilities | 5% | 3% |
| Consumer Staples | 3% | 4% |
| | 100% | 100% |

| **Geographical Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Continental Europe | 59% | 51% |
| Japan | 15% | 19% |
| United Kingdom | 14% | 18% |
| Asia (excluding Japan) | 8% | 12% |
| Australia | 2% | — |
| Latin America | 2% | — |
| | 100% | 100% |

*Asset allocation, geographical and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 64. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder International Select Equity Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.6%** | | |
| **Australia 2.4%** | | |
| Macquarie Bank Ltd. (Cost $4,811,273) | 124,500 | **5,629,885** |
| **Austria 1.5%** | | |
| Wienerberger AG (Cost $3,443,866) | 75,900 | **3,520,929** |
| **Brazil 2.0%** | | |
| Petroleo Brasileiro SA (ADR) (Cost $4,137,990) | 89,200 | **4,649,996** |
| **Denmark 1.3%** | | |
| A P Moller — Maersk AS (Cost $2,970,792) | 310 | **2,944,637** |
| **Finland 5.3%** | | |
| Fortum Oyj | 331,400 | 5,314,328 |
| Neste Oil Oyj* | 190,750 | 4,939,897 |
| Nokia Oyj | 135,500 | 2,254,965 |
| (Cost $12,416,758) | | **12,509,190** |
| **France 11.6%** | | |
| Christian Dior SA | 53,335 | 4,121,436 |
| Schneider Electric SA | 66,000 | 4,960,715 |
| Total SA | 34,861 | 8,163,816 |
| Vinci SA | 70,000 | 5,823,057 |
| Vivendi Universal SA | 132,000 | 4,133,733 |
| (Cost $21,637,815) | | **27,202,757** |
| **Germany 9.5%** | | |
| Adidas-Salomon AG | 15,900 | 2,652,440 |
| BASF AG | 68,152 | 4,517,112 |
| E.ON AG | 67,062 | 5,953,769 |
| Hypo Real Estate Holding AG | 127,000 | 4,821,388 |
| Metro AG | 85,163 | 4,215,577 |
| (Cost $16,466,322) | | **22,160,286** |
| **Greece 1.6%** | | |
| Alpha Bank AE (Cost $3,040,255) | 141,260 | **3,753,687** |
| **Hong Kong 2.0%** | | |
| Esprit Holdings Ltd. (Cost $4,529,682) | 651,046 | **4,685,425** |
| **India 1.7%** | | |
| State Bank of India (GDR) (Cost $2,998,549) | 99,566 | **3,964,688** |
| **Ireland 3.7%** | | |
| Anglo Irish Bank Corp. PLC | 250,600 | 3,107,230 |
| CRH PLC | 211,258 | 5,606,579 |
| (Cost $6,974,649) | | **8,713,809** |
| **Italy 5.0%** | | |
| Banca Intesa SpA | 1,040,400 | 4,746,032 |
| Eni SpA (d) | 271,560 | 6,971,947 |
| (Cost $9,069,587) | | **11,717,979** |
| **Japan 14.3%** | | |
| Canon, Inc. | 97,800 | 5,122,694 |
| Credit Saison Co., Ltd. | 130,400 | 4,321,092 |
| Daito Trust Construction Co., Ltd. | 117,300 | 4,379,373 |
| Kirin Brewery Co., Ltd. (d) | 353,479 | 3,420,298 |
| Millea Holdings, Inc. | 270 | 3,636,199 |
| Mitsubishi Corp. | 417,000 | 5,640,751 |
| Mitsubishi Tokyo Financial Group, Inc. | 270 | 2,279,162 |
| Toyota Motor Corp. | 130,200 | 4,654,964 |
| (Cost $26,407,547) | | **33,454,533** |
| **Korea 3.7%** | | |
| POSCO (ADR) (d) | 50,800 | 2,233,676 |
| Samsung Electronics Co., Ltd. (GDR), 144A | 26,940 | 6,445,395 |
| (Cost $7,745,156) | | **8,679,071** |
| **Netherlands 5.5%** | | |
| European Aeronautic Defence & Space Co. | 117,700 | 3,734,871 |
| ING Groep NV | 238,755 | 6,717,018 |
| TNT NV | 92,000 | 2,329,522 |
| (Cost $10,380,266) | | **12,781,411** |
| **Spain 5.2%** | | |
| Indra Sistemas SA (d) | 303,000 | 5,984,114 |
| Telefonica SA | 380,255 | 6,208,703 |
| (Cost $8,278,052) | | **12,192,817** |
| **Sweden 1.0%** | | |
| Investor AB "B" (Cost $2,284,679) | 166,000 | **2,243,538** |
| **Switzerland 7.3%** | | |
| Credit Suisse Group (Registered) | 115,400 | 4,527,488 |
| Nestle SA (Registered) | 16,966 | 4,335,861 |
| Roche Holding AG | 65,680 | 8,282,869 |
| (Cost $13,527,628) | | **17,146,218** |
| **United Kingdom 14.0%** | | |
| AstraZeneca PLC | 54,677 | 2,259,430 |
| GlaxoSmithKline PLC | 279,500 | 6,743,676 |
| GUS PLC | 146,000 | 2,295,239 |
| HSBC Holdings PLC | 208,334 | 3,320,434 |
| Rio Tinto PLC | 147,400 | 4,487,779 |
| Royal Bank of Scotland Group PLC | 126,385 | 3,805,951 |
| Smith & Nephew PLC | 225,546 | 2,219,973 |
| Trinity Mirror PLC | 211,993 | 2,337,478 |
| Vodafone Group PLC | 2,192,721 | 5,328,098 |
| (Cost $28,899,675) | | **32,798,058** |
| **Total Common Stocks** (Cost $190,020,542) | | **230,748,914** |
| **Securities Lending Collateral 5.4%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $12,529,309) | 12,529,309 | **12,529,309** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 0.4%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $858,737) | 858,737 | **858,737** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $203,408,588) (a) | 104.4 | **244,136,960** |
| **Other Assets and Liabilities, Net** | (4.4) | **(10,219,155)** |
| **Net Assets** | 100.0 | **233,917,805** |

## Notes to Scudder International Select Equity Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $204,127,380. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $40,009,580. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $42,027,977 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,018,397.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005, amounted to $11,978,431, which is 5.1% of net assets.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*GDR: Global Depositary Receipt*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $190,020,542) — including $11,978,431 of securities loaned | $ | 230,748,914 |
| Investment in Scudder Daily Assets Fund Institutional (cost $12,529,309)* | | 12,529,309 |
| Investment in Scudder Cash Management QP Trust (cost $858,737) | | 858,737 |
| Total investments in securities, at value (cost $203,408,588) | | 244,136,960 |
| Foreign currency, at value (cost $3,804,880) | | 3,812,394 |
| Receivable for investments sold | | 465,989 |
| Dividends receivable | | 551,681 |
| Interest receivable | | 12,749 |
| Receivable for Portfolio shares sold | | 157,331 |
| Foreign taxes recoverable | | 247,660 |
| Other assets | | 2,691 |
| Total assets | | 249,387,455 |

### Liabilities

| | | |
|---|---|---|
| Payable for investment purchased | | 2,460,981 |
| Payable for Portfolio shares redeemed | | 231,052 |
| Payable upon return of securities loaned | | 12,529,309 |
| Accrued management fee | | 156,785 |
| Other accrued expenses and payables | | 91,523 |
| Total liabilities | | 15,469,650 |
| **Net assets, at value** | **$** | **233,917,805** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated distributions in excess of net investment income | | (84,496) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 40,728,372 |
| Foreign currency related transactions | | 10,998 |
| Accumulated net realized gain (loss) | | (43,947,017) |
| Paid-in capital | | 237,209,948 |
| **Net assets, at value** | **$** | **233,917,805** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($181,905,954 ÷ 15,866,599 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | $ | **11.46** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($52,011,851 ÷ 4,540,898 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | $ | **11.45** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $609,984) | $ | 4,121,615 |
| Interest — Scudder Cash Management QP Trust | | 39,660 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 131,867 |
| Total Income | | 4,293,142 |
| Expenses: | | |
| Management fee | | 860,598 |
| Custodian fees | | 85,600 |
| Distribution service fees (Class B) | | 60,905 |
| Record keeping fees (Class B) | | 28,173 |
| Auditing | | 26,426 |
| Legal | | 7,726 |
| Trustees' fees and expenses | | 2,636 |
| Reports to shareholders | | 14,666 |
| Other | | 8,849 |
| Total expenses, before expense reductions | | 1,095,579 |
| Expense reductions | | (978) |
| Total expenses, after expense reductions | | 1,094,601 |
| **Net investment income (loss)** | | **3,198,541** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 6,856,453 |
| Foreign currency related transactions | | (541,718) |
| | | 6,314,735 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (11,633,296) |
| Foreign currency related transactions | | (192,576) |
| | | (11,825,872) |
| **Net gain (loss) on investment transactions** | | (5,511,137) |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(2,312,596)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 3,198,541 | $ 2,816,586 |
| Net realized gain (loss) on investment transactions | 6,314,735 | 10,653,908 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (11,825,872) | 20,514,926 |
| Net increase (decrease) in net assets resulting from operations | (2,312,596) | 33,985,420 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (5,238,343) | (1,616,136) |
| Class B | (1,218,036) | (162,336) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 15,656,533 | 40,441,379 |
| Reinvestment of distributions | 5,238,343 | 1,616,136 |
| Cost of shares redeemed | (15,924,693) | (30,593,940) |
| Net increase (decrease) in net assets from Class A share transactions | 4,970,183 | 11,463,575 |
| **Class B** | | |
| Proceeds from shares sold | 7,595,360 | 25,663,873 |
| Reinvestment of distributions | 1,218,036 | 162,336 |
| Cost of shares redeemed | (1,666,999) | (3,432,245) |
| Net increase (decrease) in net assets from Class B share transactions | 7,146,397 | 22,393,964 |
| **Increase (decrease) in net assets** | 3,347,605 | 66,064,487 |
| Net assets at beginning of period | 230,570,200 | 164,505,713 |
| Net assets at end of period (including accumulated distributions in excess of net investment income and undistributed net investment income of $84,496 and $3,173,342, respectively) | **$ 233,917,805** | **$ 230,570,200** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 15,442,740 | 14,404,846 |
| Shares sold | 1,337,837 | 3,811,740 |
| Shares issued to shareholders in reinvestment of distributions | 457,897 | 154,506 |
| Shares redeemed | (1,371,875) | (2,928,352) |
| Net increase (decrease) in Portfolio shares | 423,859 | 1,037,894 |
| Shares outstanding at end of period | **15,866,599** | **15,442,740** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,923,204 | 1,760,419 |
| Shares sold | 655,131 | 2,466,794 |
| Shares issued to shareholders in reinvestment of distributions | 106,471 | 15,520 |
| Shares redeemed | (143,908) | (319,529) |
| Net increase (decrease) in Portfolio shares | 617,694 | 2,162,785 |
| Shares outstanding at end of period | **4,540,898** | **3,923,204** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 11.91** | **$ 10.18** | **$ 7.96** | **$ 9.24** | **$ 14.73** | **$ 21.45** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .16 | .17 | .10 | .12 | .05 | .08 |
| Net realized and unrealized gain (loss) on investment transactions | (.27) | 1.67 | 2.23 | (1.36) | (3.46) | (3.90) |
| **Total from investment operations** | (.11) | 1.84 | 2.33 | (1.24) | (3.41) | (3.82) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.34) | (.11) | (.11) | (.04) | (.10) | — |
| Net realized gains on investment transactions | — | — | — | — | (1.98) | (2.90) |
| **Total distributions** | (.34) | (.11) | (.11) | (.04) | (2.08) | (2.90) |
| **Net asset value, end of period** | **$ 11.46** | **$ 11.91** | **$ 10.18** | **$ 7.96** | **$ 9.24** | **$ 14.73** |
| Total Return (%) | (.96)** | 18.25 | 29.83 | (13.48) | (24.43) | (20.49) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 182 | 184 | 147 | 120 | 121 | 179 |
| Ratio of expenses (%) | .88* | .89 | .94 | .85 | .92 | .84 |
| Ratio of net investment income (loss) (%) | 2.86* | 1.58 | 1.17 | 1.46 | .44 | .47 |
| Portfolio turnover rate (%) | 76* | 88 | 139 | 190 | 145 | 87 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

c *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 11.88** | **$ 10.15** | **$ 7.94** | **$ 8.98** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .14 | .13 | .06 | .02 |
| Net realized and unrealized gain (loss) on investment transactions | (.28) | 1.67 | 2.24 | (1.06) |
| **Total from investment operations** | (.14) | 1.80 | 2.30 | (1.04) |
| *Less distributions from:* | | | | |
| Net investment income | (.29) | (.07) | (.09) | — |
| **Net asset value, end of period** | **$ 11.45** | **$ 11.88** | **$ 10.15** | **$ 7.94** |
| Total Return (%) | (1.19)** | 17.84 | 29.42 | (11.58)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 52 | 47 | 18 | .4 |
| Ratio of expenses (%) | 1.24* | 1.28 | 1.33 | 1.11* |
| Ratio of net investment income (loss) (%) | 2.50* | 1.19 | .78 | .54* |
| Portfolio turnover rate (%) | 76* | 88 | 139 | 190 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

c *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Scudder Large Cap Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 981.60 | $ 979.70 |
| Expenses Paid per $1,000* | $ 3.93 | $ 5.74 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.83 | $ 1,018.99 |
| Expenses Paid per $1,000* | $ 4.01 | $ 5.86 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Large Cap Value Portfolio | .80% | 1.18% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Large Cap Value Portfolio

The portfolio's result for the first half of 2005 of –1.84% (Class A shares, unadjusted for contract charges) came in below that of our benchmark, the Russell 1000 Value Index, which was 1.76%.

The benchmark was affected by the strong showing of mid-cap stocks. In the first half of 2005, mid-cap stocks comprised about 32% of the Russell 1000 Value Index but contributed about 66% of the index's return. As the popularity of mid caps wanes, reversion to the mean may occur and the current difficulty that large value managers have had in beating the value benchmark should dissipate.

During the semiannual period, oil prices climbed on concerns of limited supply and production cutbacks. The portfolio benefited from this trend; however, our sector underweight, when compared to the index, and focus on large, integrated oil firms instead of oil services companies had a negative impact on relative performance. Additionally, ExxonMobil, which rose 13%, has now reached a 6% weight in the index, while the fund has maintained a position about half that size for risk management and diversification.

In technology, the portfolio benefited from good stock selection, which delivered positive results. We were overweight in semiconductor stocks, which rose on the heels of better-than-expected company earnings. We continue to like this undervalued group and believe it will benefit from solid economic growth and rising capital expenditures.

We believe that recent performance below the benchmark suggests substantial underappreciated performance potential within the portfolio.

Thomas F. Sassi
Lead Manager

Steve Scrudato
Portfolio Manager

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market risk. It focuses its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read the underlying prospectus for specific details regarding the product's investments and risk profile.

*The Russell 1000 Value Index is an unmanaged index, which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values.*

*Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Large Cap Value Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 94% | 99% |
| Cash Equivalents | 6% | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 28% | 31% |
| Information Technology | 19% | 15% |
| Energy | 15% | 7% |
| Health Care | 10% | 11% |
| Industrials | 10% | 11% |
| Consumer Discretionary | 7% | 9% |
| Consumer Staples | 5% | 7% |
| Materials | 3% | 7% |
| Telecommunication Services | 2% | 1% |
| Utilities | 1% | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 72. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Large Cap Value Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 93.3%** | | |
| **Consumer Discretionary 6.5%** | | |
| **Multiline Retail 1.5%** | | |
| Family Dollar Stores, Inc. | 178,300 | **4,653,630** |
| **Specialty Retail 5.0%** | | |
| Lowe's Companies, Inc. (c) | 90,200 | 5,251,444 |
| RadioShack Corp. | 133,000 | 3,081,610 |
| The Gap, Inc. | 220,100 | 4,346,975 |
| TJX Companies, Inc. | 95,400 | 2,322,990 |
| | | **15,003,019** |
| **Consumer Staples 4.3%** | | |
| **Food Products 2.9%** | | |
| General Mills, Inc. | 108,800 | 5,090,752 |
| Unilever NV (NY Shares) | 55,500 | 3,598,065 |
| | | **8,688,817** |
| **Household Products 1.4%** | | |
| Kimberly-Clark Corp. | 70,300 | **4,400,077** |
| **Energy 14.1%** | | |
| **Energy Equipment & Services 1.9%** | | |
| Halliburton Co. | 123,300 | **5,896,206** |
| **Oil, Gas & Consumable Fuels 12.2%** | | |
| BP PLC (ADR) | 97,444 | 6,078,557 |
| ChevronTexaco Corp. | 188,100 | 10,518,552 |
| ExxonMobil Corp. | 254,100 | 14,603,127 |
| Royal Dutch Petroleum Co. (NY Shares) | 86,000 | 5,581,400 |
| | | **36,781,636** |
| **Financials 26.0%** | | |
| **Banks 12.3%** | | |
| AmSouth Bancorp. (c) | 179,300 | 4,661,800 |
| Bank of America Corp. | 164,326 | 7,494,909 |
| BB&T Corp. | 74,600 | 2,981,762 |
| PNC Financial Services Group | 55,500 | 3,022,530 |
| SunTrust Banks, Inc. | 51,400 | 3,713,136 |
| US Bancorp. | 177,600 | 5,185,920 |
| Wachovia Corp. | 94,900 | 4,707,040 |
| Wells Fargo & Co. | 89,900 | 5,536,042 |
| | | **37,303,139** |
| **Capital Markets 2.9%** | | |
| Bear Stearns Companies, Inc. | 32,300 | 3,357,262 |
| Merrill Lynch & Co., Inc. | 96,700 | 5,319,467 |
| | | **8,676,729** |
| **Diversified Financial Services 7.6%** | | |
| Citigroup, Inc. | 195,200 | 9,024,096 |
| Freddie Mac | 69,300 | 4,520,439 |
| JPMorgan Chase & Co. | 264,700 | 9,349,204 |
| | | **22,893,739** |
| **Insurance 3.2%** | | |
| Allstate Corp. | 42,000 | 2,509,500 |
| American International Group, Inc. | 85,500 | 4,967,550 |
| Lincoln National Corp. | 49,300 | 2,313,156 |
| | | **9,790,206** |
| **Health Care 9.5%** | | |
| **Health Care Equipment & Supplies 2.0%** | | |
| Baxter International, Inc. | 166,100 | **6,162,310** |
| **Pharmaceuticals 7.5%** | | |
| Abbott Laboratories | 105,900 | 5,190,159 |
| Bristol-Myers Squibb Co. | 256,000 | 6,394,880 |
| Johnson & Johnson | 47,000 | 3,055,000 |
| Pfizer, Inc. | 127,500 | 3,516,450 |
| Wyeth | 103,000 | 4,583,500 |
| | | **22,739,989** |
| **Industrials 9.0%** | | |
| **Aerospace & Defense 2.3%** | | |
| Honeywell International, Inc. | 190,800 | **6,989,004** |
| **Commercial Services & Supplies 1.9%** | | |
| Avery Dennison Corp. | 75,500 | 3,998,480 |
| Pitney Bowes, Inc. | 35,400 | 1,541,670 |
| | | **5,540,150** |
| **Electrical Equipment 1.0%** | | |
| Emerson Electric Co. | 48,200 | **3,018,766** |
| **Industrial Conglomerates 3.8%** | | |
| General Electric Co. | 220,500 | 7,640,325 |
| Textron, Inc. | 51,900 | 3,936,615 |
| | | **11,576,940** |
| **Information Technology 18.0%** | | |
| **Communications Equipment 3.4%** | | |
| Cisco Systems, Inc.* | 158,800 | 3,034,668 |
| Nokia Oyj (ADR) | 439,600 | 7,314,944 |
| | | **10,349,612** |
| **Computers & Peripherals 3.8%** | | |
| Hewlett-Packard Co. | 253,797 | 5,966,767 |
| International Business Machines Corp. | 75,400 | 5,594,680 |
| | | **11,561,447** |
| **IT Consulting & Services 3.2%** | | |
| Automatic Data Processing, Inc. | 155,400 | 6,522,138 |
| First Data Corp. | 77,000 | 3,090,780 |
| | | **9,612,918** |
| **Semiconductors & Semiconductor Equipment 6.0%** | | |
| Applied Materials, Inc. (c) | 284,100 | 4,596,738 |
| Intel Corp. | 336,500 | 8,769,190 |
| Texas Instruments, Inc. | 168,700 | 4,735,409 |
| | | **18,101,337** |
| **Software 1.6%** | | |
| Microsoft Corp. | 188,900 | **4,692,276** |
| **Materials 3.0%** | | |
| **Chemicals 1.0%** | | |
| Air Products & Chemicals, Inc. | 51,600 | **3,111,480** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Containers & Packaging 1.5%** | | |
| Sonoco Products Co. | 169,800 | **4,499,700** |
| **Metals & Mining 0.5%** | | |
| Alcoa, Inc. | 57,900 | **1,512,927** |
| **Telecommunication Services 1.6%** | | |
| **Diversified Telecommunication Services** | | |
| SBC Communications, Inc. | 87,300 | 2,073,375 |
| Verizon Communications, Inc. | 79,800 | 2,757,090 |
| | | **4,830,465** |
| **Utilities 1.3%** | | |
| **Electric Utilities** | | |
| Progress Energy, Inc. | 88,100 | **3,985,644** |
| **Total Common Stocks** (Cost $250,833,992) | | **282,372,163** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 3.9%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $11,835,575) | 11,835,575 | **11,835,575** |
| **Cash Equivalents 6.3%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $18,994,003) | 18,994,003 | **18,994,003** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $281,663,570) (a) | 103.5 | **313,201,741** |
| **Other Assets and Liabilities, Net** | (3.5) | **(10,666,576)** |
| **Net Assets** | 100.0 | **302,535,165** |

## Notes to Scudder Large Cap Value Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $283,434,191. At June 30, 2005, net realized appreciation for all securities based on tax cost was $29,767,550. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $37,368,516 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $7,600,966.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $11,541,380, which is 3.8% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is also managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $250,833,992) — including $11,541,380 of securities loaned | $ | 282,372,163 |
| Investment in Scudder Daily Assets Fund Institutional (cost $11,835,575)* | | 11,835,575 |
| Investment in Scudder Cash Management QP Trust (cost $18,994,003) | | 18,994,003 |
| Total investments in securities, at value (cost $281,663,570) | | 313,201,741 |
| Cash | | 17,936 |
| Receivable for investments sold | | 1,251,624 |
| Dividends receivable | | 393,094 |
| Interest receivable | | 29,299 |
| Receivable for Portfolio shares sold | | 38,518 |
| Other assets | | 4,262 |
| Total assets | | 314,936,474 |

### Liabilities

| | | |
|---|---|---|
| Payable for Portfolio shares redeemed | | 306,281 |
| Payable upon return of securities loaned | | 11,835,575 |
| Accrued management fee | | 194,400 |
| Other accrued expenses and payables | | 65,053 |
| Total liabilities | | 12,401,309 |
| **Net assets, at value** | **$** | **302,535,165** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | $ | 2,474,081 |
| Net unrealized appreciation (depreciation) on investments | | 31,538,171 |
| Accumulated net realized gain (loss) | | (16,234,299) |
| Paid-in capital | | 284,757,212 |
| **Net assets, at value** | **$** | **302,535,165** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($262,643,056 ÷ 17,259,976 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **15.22** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($39,892,109 ÷ 2,619,699 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **15.23** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $71,052) | $ | 3,765,725 |
| Interest — Scudder Cash Management QP Trust | | 100,488 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 26,238 |
| Total Income | | 3,892,451 |
| Expenses: | | |
| Management fee | | 1,140,499 |
| Custodian fees | | 7,643 |
| Distribution service fees (Class B) | | 49,923 |
| Record keeping fees (Class B) | | 25,468 |
| Auditing | | 22,169 |
| Legal | | 6,384 |
| Trustees' fees and expenses | | 3,306 |
| Reports to shareholders | | 24,440 |
| Other | | 8,690 |
| Total expenses, before expense reductions | | 1,288,522 |
| Expense reductions | | (1,277) |
| Total expenses, after expense reductions | | 1,287,245 |
| **Net investment income (loss)** | | **2,605,206** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from investments | | 10,331,679 |
| Net unrealized appreciation (depreciation) during the period on investments | | (18,771,577) |
| **Net gain (loss) on investment transactions** | | **(8,439,898)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(5,834,692)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 2,605,206 | $ 5,323,805 |
| Net realized gain (loss) on investment transactions | 10,331,679 | 13,617,082 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (18,771,577) | 9,876,005 |
| Net increase (decrease) in net assets resulting from operations | (5,834,692) | 28,816,892 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (4,761,672) | (4,099,698) |
| Class B | (575,737) | (305,336) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 15,822,882 | 26,091,725 |
| Reinvestment of distributions | 4,761,672 | 4,099,698 |
| Cost of shares redeemed | (22,123,675) | (40,278,155) |
| Net increase (decrease) in net assets from Class A share transactions | (1,539,121) | (10,086,732) |
| **Class B** | | |
| Proceeds from shares sold | 2,296,571 | 22,917,145 |
| Reinvestment of distributions | 575,737 | 305,336 |
| Cost of shares redeemed | (1,948,679) | (3,736,209) |
| Net increase (decrease) in net assets from Class B share transactions | 923,629 | 19,486,272 |
| **Increase (decrease) in net assets** | (11,787,593) | 33,811,398 |
| Net assets at beginning of period | 314,322,758 | 280,511,360 |
| Net assets at end of period (including undistributed net investment income of $2,474,081 and $5,206,284, respectively) | **$ 302,535,165** | **$ 314,322,758** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 17,350,180 | 18,033,776 |
| Shares sold | 1,031,188 | 1,766,310 |
| Shares issued to shareholders in reinvestment of distributions | 312,241 | 282,738 |
| Shares redeemed | (1,433,633) | (2,732,644) |
| Net increase (decrease) in Portfolio shares | (90,204) | (683,596) |
| Shares outstanding at end of period | **17,259,976** | **17,350,180** |
| **Class B** | | |
| Shares outstanding at beginning of period | 2,560,016 | 1,221,656 |
| Shares sold | 148,189 | 1,563,652 |
| Shares issued to shareholders in reinvestment of distributions | 37,679 | 21,029 |
| Shares redeemed | (126,185) | (246,321) |
| Net increase (decrease) in Portfolio shares | 59,683 | 1,338,360 |
| Shares outstanding at end of period | **2,619,699** | **2,560,016** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 15.79** | **$ 14.57** | **$ 11.24** | **$ 13.40** | **$ 13.40** | **$ 14.70** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .13 | .27 | .24 | .23 | .23 | .30 |
| Net realized and unrealized gain (loss) on investment transactions | (.42) | 1.18 | 3.33 | (2.20) | .01 | 1.40 |
| **Total from investment operations** | (.29) | 1.45 | 3.57 | (1.97) | .24 | 1.70 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.28) | (.23) | (.24) | (.19) | (.24) | (.40) |
| Net realized gains on investment transactions | — | — | — | — | — | (2.60) |
| **Total distributions** | (.28) | (.23) | (.24) | (.19) | (.24) | (3.00) |
| **Net asset value, end of period** | **$ 15.22** | **$ 15.79** | **$ 14.57** | **$ 11.24** | **$ 13.40** | **$ 13.40** |
| Total Return (%) | (1.84)** | 10.07 | 32.60 | (14.98) | 1.87 | 16.13 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 263 | 274 | 263 | 215 | 257 | 219 |
| Ratio of expenses (%) | .80* | .80 | .80 | .79 | .79 | .80 |
| Ratio of net investment income (loss) (%) | 1.76* | 1.84 | 1.94 | 1.84 | 1.75 | 2.55 |
| Portfolio turnover rate (%) | 43* | 40 | 58 | 84 | 72 | 56 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 15.77** | **$ 14.55** | **$ 11.23** | **$ 12.77** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .11 | .22 | .18 | .15 |
| Net realized and unrealized gain (loss) on investment transactions | (.43) | 1.17 | 3.35 | (1.69) |
| **Total from investment operations** | (.32) | 1.39 | 3.53 | (1.54) |
| *Less distributions from:* | | | | |
| Net investment income | (.22) | (.17) | (.21) | — |
| **Net asset value, end of period** | **$ 15.23** | **$ 15.77** | **$ 14.55** | **$ 11.23** |
| Total Return (%) | (2.03)** | 9.65 | 32.19 | (12.06)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 40 | 40 | 18 | .5 |
| Ratio of expenses (%) | 1.18* | 1.18 | 1.19 | 1.04* |
| Ratio of net investment income (loss) (%) | 1.38* | 1.46 | 1.55 | 2.74* |
| Portfolio turnover rate (%) | 43* | 40 | 58 | 84** |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Scudder Money Market Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these table is meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,011.30 | $ 1,009.40 |
| Expenses Paid per $1,000* | $ 2.54 | $ 4.43 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,022.27 | $ 1,020.38 |
| Expenses Paid per $1,000* | $ 2.56 | $ 4.46 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — Scudder Money Market Portfolio | .51% | .89% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Money Market Portfolio

Short-term interest rates rose steadily during the semiannual period as investors reacted to rising oil prices, increasing signs of inflationary pressure and the continued series of interest rate increases by the US Federal Reserve Board (the Fed). The federal funds rate stood at 3.25% on June 30, 2005, compared with 2.25% six months earlier, following four hikes of 0.25% by the Fed. The federal funds rate is the interest rate banks charge each other for overnight loans and is a closely-watched indicator of US Federal Reserve Board monetary policy. The one-year LIBOR rate, an industry standard for measuring one-year money market rates, stood at a four-year high of 3.90% at the close of the period.

The portfolio provided a total return of 1.13% (Class A shares, unadjusted for contract charges) for the six months ended June 30, 2005, compared with the 1.07% average return for funds in the Lipper Money Market Funds category for the same period. The seven-day current yield for the portfolio was 2.73% as of June 30, 2005.

Our strategy was to keep the portfolio's average maturity relatively short in order to reduce risk, generally limiting our purchases to three-month-maturity issues and shorter. (Shorter-term securities are generally less risky than longer-term securities and are therefore potentially more attractive in a difficult environment.) From time to time, when the market offered more attractive yields at longer maturities, we added some longer-term issues. Overall, we maintain our conservative investment strategy and our insistence on the highest credit quality within the portfolio.

A group of investment professionals is responsible for the day-to-day management of the portfolio. These investment professionals have a broad range of experience managing money market funds.

Deutsche Investment Management Americas Inc.

**Performance is historical, assumes reinvestment of all dividends, and does not guarantee future results. Current performance may be higher or lower than the performance quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the portfolio than the total return quotation. Investment returns will fluctuate.**

### Risk Considerations

**An investment in this portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other government agency. Although the portfolio seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the portfolio. Please read this portfolio's prospectus for specific details regarding its investment and risk profile.**

*LIBOR, the London Interbank Offered Rate, is the most widely used benchmark or reference rate for short-term interest rates. LIBOR is the rate of interest at which banks borrow funds from other banks, in large volume, in the international market.*

*The Lipper Money Market Funds category includes funds that invest in high-quality financial instruments rated in the top two grades with dollar-weighted average maturities of less than 90 days and that intend to keep a constant net asset value. It is not possible to invest directly in a Lipper category.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Money Market Portfolio

| Asset Allocation | 6/30/05 | 12/31/04 |
|---|---|---|
| Repurchase Agreements | 26% | 8% |
| Short-Term Notes | 23% | 22% |
| Commercial Paper | 22% | 41% |
| Certificates of Deposit and Bank Notes | 16% | 12% |
| US Government Sponsored Agencies† | 10% | 11% |
| Funding Agreement | 2% | 3% |
| Promissory Notes | 1% | 3% |
| | 100% | 100% |

† *Not backed by the full faith and credit of the US Government*

| Weighted Average Maturity* | | |
|---|---|---|
| Scudder Variable Series II — Money Market Portfolio | 36 days | 30 days |
| First Tier Money Fund Average | 36 days | 36 days |

* *The Funds are compared to their respective iMoneyNet category: Category includes only non-government retail funds that are not holding any second tier securities. Portfolio Holdings of First Tier funds include U.S. Treasury, U.S. Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier CP, Floating Rate Notes and Asset backed Commercial Paper.*

*Asset allocation is subject to change.*

*For more complete details about the Portfolios' holdings, see page 80. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Money Market Portfolio

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Certificates of Deposit and Bank Notes 16.0%** | | |
| Bank of The West, 3.1%, 7/1/2005 | 5,000,000 | 5,000,000 |
| Barclays Bank PLC, 3.06%, 8/9/2005 | 6,000,000 | 6,000,000 |
| Depfa Bank PLC, 3.22%, 2/6/2006 | 3,000,000 | 3,000,000 |
| HBOS Treasury Services PLC, 3.8%, 7/10/2006 | 3,000,000 | 3,000,000 |
| Societe Generale: | | |
| 2.955%, 8/8/2005 | 6,000,000 | 6,000,031 |
| 3.265%, 3/3/2006 | 3,000,000 | 3,000,000 |
| Toronto Dominion Bank, 3.75%, 5/16/2006 | 3,000,000 | 2,999,744 |
| UniCredito Italiano SpA, 3.8%, 6/15/2006 | 3,000,000 | 3,000,000 |
| Wells Fargo Bank NA, 3.1%, 7/8/2005 | 15,000,000 | 15,000,000 |
| **Total Certificates of Deposit and Bank Notes** (Cost $46,999,775) | | **46,999,775** |
| **Commercial Paper** 21.8%** | | |
| Apreco LLC, 3.33%, 8/8/2005 | 14,000,000 | 13,950,938 |
| Charta LLC, 3.26%, 8/4/2005 | 14,000,000 | 13,957,028 |
| Giro Funding US Corp., 3.13%, 7/8/2005 | 11,000,000 | 10,993,305 |
| Kitty Hawk Funding Corp., 3.32%, 7/25/2005 | 8,128,000 | 8,110,064 |
| RWE AG, 2.92%, 8/1/2005 | 9,000,000 | 8,977,448 |
| Verizon Network Funding Corp., 3.21%, 7/7/2005 | 8,000,000 | 7,995,720 |
| **Total Commercial Paper** (Cost $63,984,503) | | **63,984,503** |
| **Short-Term Notes 23.2%** | | |
| American Honda Finance Corp., 3.404%*, 6/22/2006 | 2,000,000 | 2,000,000 |
| Credit Suisse First Boston, 3.38%*, 9/9/2005 | 7,000,000 | 7,000,315 |
| Depfa Bank PLC, 3.42%*, 9/15/2005 | 4,000,000 | 4,000,000 |
| HSBC Finance Corp., 3.37%*, 8/18/2005 | 12,000,000 | 12,002,091 |
| International Business Machines Corp., 3.14%*, 3/8/2006 | 3,000,000 | 2,999,697 |
| Kimberly-Clark Corp., 4.5%, 7/30/2005 | 8,000,000 | 8,009,096 |
| Links Finance LLC, 3.215%*, 5/22/2006 | 6,000,000 | 5,999,451 |
| Merrill Lynch & Co., Inc.: | | |
| 3.2%*, 5/5/2006 | 3,000,000 | 3,002,039 |
| 3.471%*, 3/17/2006 | 10,000,000 | 10,005,180 |
| Morgan Stanley, 3.508%*, 11/15/2005 | 10,000,000 | 10,000,000 |
| Skandinaviska Enskila Banken, 3.27%*, 7/18/2006 | 3,000,000 | 3,000,000 |
| **Total-Short Term Notes** (Cost $68,017,869) | | **68,017,869** |
| **Promissory Note* 1.0%** | | |
| The Goldman Sachs Group, Inc., 3.538%, 10/28/2005 (Cost $3,000,000) | 3,000,000 | **3,000,000** |
| **Funding Agreement* 2.4%** | | |
| New York Life Insurance Co., 3.514%, 9/20/2005 (Cost $7,000,000) | 7,000,000 | **7,000,000** |
| **US Government Sponsored Agencies† 9.5%** | | |
| Federal Home Loan Mortgage Corp.: | | |
| 3.083%*, 10/7/2005 | 10,000,000 | 10,000,000 |
| 3.184%*, 11/7/2005 | 5,000,000 | 5,000,000 |
| Federal National Mortgage Association: | | |
| 3.04%*, 9/7/2006 | 3,000,000 | 2,997,354 |
| 3.05%**, 7/1/2005 | 10,000,000 | 10,000,000 |
| **Total US Government Sponsored Agencies** (Cost $27,997,354) | | **27,997,354** |
| **Repurchase Agreements 26.2%** | | |
| JPMorgan Chase, Inc., 3.43%, dated 6/30/2005, to be repurchased at $24,002,287 on 7/1/2005 (b) | 24,000,000 | 24,000,000 |
| Morgan Stanley, 3.4%, dated 6/30/2005, to be repurchased at $51,004,817 on 7/1/2005 (c) | 51,000,000 | 51,000,000 |
| State Street Bank and Trust Co., 2.65%, dated 6/30/2005, to be repurchased at $1,913,141 on 7/1/2005 (d) | 1,913,000 | 1,913,000 |
| **Total Repurchase Agreements** (Cost $76,913,000) | | **76,913,0000** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $293,912,501) (a) | 100.1 | **293,912,501** |
| **Other Assets and Liabilities, Net** | (0.1) | **(390,323)** |
| **Net Assets** | 100.0 | **293,522,178** |

### Notes to Scudder Money Market Portfolio of Investments

* *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of June 30, 2005.*

** *Annualized yield at time of purchase; not a coupon rate.*

† *Not backed by the full faith and credit of the US Government.*

(a) *Cost for federal income tax purposes was $293,912,501.*

(b) *Collateralized by $31,620,461 Federal National Mortgage Association, Principal Only, Zero coupon with various maturities from 7/1/2034 to 2/1/2035 with a value of $24,720,623.*

(c) *Collateralized by a $52,735,000 Federal National Mortgage Association, with various coupon rates from 2.625–2.81%, and various maturities from 9/28/2006 to 1/9/2007 with a value of $52,421,244.*

(d) *Collateralized by a $1,940,000 Federal Farm Credit Bank, 2.125% maturing on 8/15/2005 with a value of $1,952,263.*

*Principal Only (PO) Bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at amortized cost (cost $216,999,501) | $ | 216,999,501 |
| Repurchase agreements, at amortized cost (cost $76,913,000) | | 76,913,000 |
| Total investments in securities, at amortized cost (cost $293,912,501) | | 293,912,501 |
| Cash | | 437 |
| Interest receivable | | 702,708 |
| Receivable for Portfolio shares sold | | 42,969 |
| Other assets | | 5,995 |
| Total assets | | 294,664,610 |
| **Liabilities** | | |
| Dividends payable | | 313,998 |
| Payable for Portfolio shares redeemed | | 651,009 |
| Accrued management fee | | 108,327 |
| Other accrued expenses and payables | | 69,098 |
| Total liabilities | | 1,142,432 |
| **Net assets, at value** | **$** | **293,522,178** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Accumulated distributions in excess of net investment income | | (41,483) |
| Accumulated net realized gain (loss) | | (16) |
| Paid-in capital | | 293,563,677 |
| **Net assets, at value** | **$** | **293,522,178** |
| **Class A** | | |
| **Net Asset Value**, offering and redemption price per share ($239,314,521 ÷ 239,347,534 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **1.00** |
| **Class B** | | |
| **Net Asset Value**, offering and redemption price per share ($54,207,657 ÷ 54,212,661 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **1.00** |

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Interest | $ | 4,298,332 |
| Expenses: | | |
| Management fee | | 711,320 |
| Custodian fees | | 9,399 |
| Distribution service fees (Class B) | | 65,674 |
| Record keeping fees (Class B) | | 32,989 |
| Auditing | | 18,122 |
| Legal | | 8,358 |
| Trustees' fee and expenses | | 3,698 |
| Reports to shareholders | | 34,535 |
| Other | | 8,478 |
| Total expenses, before expense reductions | | 892,573 |
| Expense reductions | | (1,231) |
| Total expenses, after expense reductions | | 891,342 |
| **Net investment income (loss)** | | **3,406,990** |
| **Net realized gain (loss) from investments** | | **(16)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **3,406,974** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income | $ 3,406,990 | $ 3,038,989 |
| Net realized gain (loss) on investment transactions | (16) | 3,830 |
| Net increase (decrease) in net assets resulting from operations | 3,406,974 | 3,042,819 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (2,910,012) | (2,746,531) |
| Class B | (496,383) | (313,926) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 114,574,572 | 220,350,001 |
| Reinvestment of distributions | 2,816,208 | 2,679,083 |
| Cost of shares redeemed | (119,350,996) | (308,224,544) |
| Net increase (decrease) in net assets from Class A share transactions | (1,960,216) | (85,195,460) |
| **Class B** | | |
| Proceeds from shares sold | 35,038,325 | 69,563,948 |
| Reinvestment of distributions | 473,950 | 295,489 |
| Cost of shares redeemed | (34,016,944) | (83,569,264) |
| Net increase (decrease) in net assets from Class B share transactions | 1,495,331 | (13,709,827) |
| **Increase (decrease) in net assets** | (464,306) | (98,922,925) |
| Net assets at beginning of period | 293,986,484 | 392,909,409 |
| Net assets at end of period (including accumulated distributions in excess of net investment income of $41,483 and $42,078, respectively) | **$ 293,522,178** | **$ 293,986,484** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 241,307,750 | 326,503,210 |
| Shares sold | 114,574,572 | 220,350,001 |
| Shares issued to shareholders in reinvestment of distributions | 2,816,208 | 2,679,083 |
| Shares redeemed | (119,350,996) | (308,224,544) |
| Net increase (decrease) in Portfolio shares | (1,960,216) | (85,195,460) |
| Shares outstanding at end of period | **239,347,534** | **241,307,750** |
| **Class B** | | |
| Shares outstanding at beginning of period | 52,717,331 | 66,427,158 |
| Shares sold | 35,038,324 | 69,563,948 |
| Shares issued to shareholders in reinvestment of distributions | 473,950 | 295,489 |
| Shares redeemed | (34,016,944) | (83,569,264) |
| Net increase (decrease) in Portfolio shares | 1,495,330 | (13,709,827) |
| Shares outstanding at end of period | **54,212,661** | **52,717,331** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** |
| *Income from investment operations:* | | | | | | |
| Net investment income | .011 | .009 | .007 | .013 | .037 | .059 |
| **Total from investment operations** | .011 | .009 | .007 | .013 | .037 | .059 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.011) | (.009) | (.007) | (.013) | (.037) | (.059) |
| **Net asset value, end of period** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** |
| Total Return (%) | 1.13** | .91 | .72 | 1.35 | 3.75 | 6.10 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 239 | 241 | 326 | 570 | 671 | 279 |
| Ratio of expenses (%) | .51* | .53 | .54 | .54 | .55 | .58 |
| Ratio of net investment income (%) | 2.28* | .88 | .73 | 1.35 | 3.39 | 5.94 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** |
| *Income from investment operations:* | | | | |
| Net investment income | .009 | .005 | .004 | .007 |
| **Total from investment operations** | .009 | .005 | .004 | .007 |
| *Less distributions from:* | | | | |
| Net investment income | (.009) | (.005) | (.004) | (.007) |
| **Net asset value, end of period** | **$ 1.000** | **$ 1.000** | **$ 1.000** | **$ 1.000** |
| Total Return (%) | .94** | .52 | .42 | .67** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 54 | 53 | 66 | 3 |
| Ratio of expenses before expense reductions (%) | .89* | .91 | .93 | .79* |
| Ratio of expenses after expense reductions (%) | .89* | .91 | .92 | .64* |
| Ratio of net investment income (%) | 1.90* | .50 | .35 | 1.11* |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

* *Annualized*

** *Not annualized*

## Scudder Small Cap Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,010.30 | $ 1,008.80 |
| Expenses Paid per $1,000* | $ 3.54 | $ 5.43 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,021.27 | $ 1,019.39 |
| Expenses Paid per $1,000* | $ 3.56 | $ 5.46 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — Scudder Small Cap Growth Portfolio | .71% | 1.09% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Small Cap Growth Portfolio

During the first quarter of 2005, a strong, low-inflation economic environment favored mid- and large-cap stocks over small caps. In the second quarter, however, mixed economic data suggested that growth may be slowing. Over the six-month period, small caps rebounded during the second quarter from their last place first-quarter finish as surging oil prices led investors to move into smaller, specialized companies.

For its most recent semiannual period, the portfolio returned 1.03% (Class A shares, unadjusted for contract charges), handily outperforming the –3.58% return of the Russell 2000 Growth Index.

The largest contributor to the portfolio's return over the six-month period was strong stock selection in the health care sector, particularly within the providers and services industry, which includes our holdings in companies dealing with laser vision-correction and managed care. Positive stock selection within consumer discretionary and information technology also helped returns. The portfolio benefited from an overweight in the consumer discretionary sector and underweight in materials during the period. Based on significantly higher oil prices, energy was the strongest-performing sector in the Russell 2000 Growth Index by a wide margin. However, our stock selection within energy detracted from performance. Going forward, we are optimistic that the portfolio is suitably positioned given the current market environment.

Samuel A. Dedio
Robert S. Janis

Co-Lead Portfolio Managers
Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Finally, derivatives may be more volatile and less liquid than traditional securities and the portfolio could suffer losses on its derivatives positions. Please read this portofolio's prospectus for specific details regarding this product's investments and risk profile.

*The Russell 2000 Growth Index is an unmanaged index (with no defined investment objective) of those securities in the Russell 2000 Index with a higher price-to-book ratio and higher forecasted growth values. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Small Cap Growth Portfolio

| Asset Allocation (Excludes Security Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 97% |
| Cash Equivalents | 1% | 3% |
| | 100% | 100% |

| Sector Diversification (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Health Care | 28% | 24% |
| Information Technology | 23% | 29% |
| Consumer Discretionary | 22% | 22% |
| Industrials | 9% | 8% |
| Financials | 7% | 8% |
| Energy | 7% | 3% |
| Consumer Staples | 3% | 5% |
| Telecommunication Services | 1% | — |
| Materials | — | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 87. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Small Cap Growth Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 99.1%** | | |
| **Consumer Discretionary 21.6%** | | |
| **Hotels Restaurants & Leisure 7.4%** | | |
| Buffalo Wild Wings, Inc.* (d) | 96,100 | 2,998,320 |
| P.F. Chang's China Bistro, Inc.* | 105,800 | 6,240,084 |
| RARE Hospitality International, Inc.* | 198,350 | 6,043,724 |
| Shuffle Master, Inc.* (d) | 182,700 | 5,121,081 |
| | | **20,403,209** |
| **Media 2.0%** | | |
| Lions Gate Entertainment Corp.* (d) | 540,800 | **5,548,608** |
| **Specialty Retail 9.0%** | | |
| A.C. Moore Arts & Crafts, Inc.* | 183,700 | 5,806,757 |
| Aeropostale, Inc.* | 213,400 | 7,170,240 |
| Hot Topic, Inc.* | 319,500 | 6,108,840 |
| Kenneth Cole Productions, Inc. "A" | 177,700 | 5,530,024 |
| | | **24,615,861** |
| **Textiles, Apparel & Luxury Goods 3.2%** | | |
| Gildan Activewear, Inc. "A"* | 217,200 | 5,723,220 |
| The Warnaco Group, Inc.* | 136,000 | 3,162,000 |
| | | **8,885,220** |
| **Consumer Staples 2.9%** | | |
| **Household Products** | | |
| Jarden Corp.* | 146,300 | **7,888,496** |
| **Energy 7.3%** | | |
| **Energy Equipment & Services 3.8%** | | |
| Grey Wolf, Inc.* | 876,500 | 6,494,865 |
| Universal Compression Holdings, Inc.* | 112,400 | 4,073,376 |
| | | **10,568,241** |
| **Oil, Gas & Consumable Fuels 3.5%** | | |
| Bill Barrett Corp.* | 130,600 | 3,863,148 |
| Bois d'Arc Energy, Inc.* | 58,400 | 861,400 |
| Comstock Resources, Inc.* | 187,500 | 4,741,875 |
| | | **9,466,423** |
| **Financials 7.5%** | | |
| **Banks 4.0%** | | |
| PrivateBancorp, Inc. (d) | 120,800 | 4,273,904 |
| Signature Bank* | 136,700 | 3,335,480 |
| Texas Capital Bancshares, Inc.* | 175,500 | 3,464,370 |
| | | **11,073,754** |
| **Diversified Financial Services 2.3%** | | |
| Affiliated Managers Group, Inc.* (d) | 92,000 | **6,286,360** |
| **Insurance 1.2%** | | |
| KMG America Corp.* | 345,000 | **3,429,300** |
| **Health Care 27.6%** | | |
| **Health Care Equipment & Supplies 6.0%** | | |
| American Medical Systems Holdings, Inc.* | 246,800 | 5,096,420 |
| ArthroCare Corp.* (d) | 159,200 | 5,562,448 |
| Hologic, Inc.* | 10,100 | 401,475 |
| Wright Medical Group, Inc.* | 205,300 | 5,481,510 |
| | | **16,541,853** |
| **Health Care Providers & Services 21.6%** | | |
| Amedisys, Inc.* (d) | 170,900 | 6,285,702 |
| American Healthways, Inc.* (d) | 146,200 | 6,179,874 |
| AMERIGROUP Corp.* | 146,700 | 5,897,340 |
| AmSurg Corp.* | 149,300 | 4,134,117 |
| Centene Corp.* | 304,800 | 10,235,184 |
| Chemed Corp. | 96,500 | 3,944,920 |
| HealthExtras, Inc.* | 178,900 | 3,590,523 |
| LCA-Vision, Inc. (d) | 143,500 | 6,954,010 |
| Psychiatric Solutions, Inc.* | 135,800 | 6,614,818 |
| United Surgical Partners International, Inc.* | 111,700 | 5,817,336 |
| | | **59,653,824** |
| **Industrials 8.7%** | | |
| **Commercial Services & Supplies 0.6%** | | |
| Morningstar, Inc.* (d) | 62,300 | **1,753,745** |
| **Construction & Engineering 1.3%** | | |
| Dycom Industries, Inc.* | 182,900 | **3,623,249** |
| **Machinery 3.2%** | | |
| Actuant Corp. "A"* | 92,600 | 4,439,244 |
| Watts Water Technologies, Inc. "A" | 127,000 | 4,253,230 |
| | | **8,692,474** |
| **Road & Rail 0.9%** | | |
| Heartland Express, Inc. | 130,946 | **2,544,281** |
| **Transportation Infrastructure 2.7%** | | |
| Greenbrier Companies, Inc. | 96,600 | 2,617,860 |
| Overnite Corp. | 111,300 | 4,783,674 |
| | | **7,401,534** |
| **Information Technology 22.5%** | | |
| **Communications Equipment 2.6%** | | |
| ADTRAN, Inc. | 120,200 | 2,979,758 |
| Foundry Networks, Inc.* | 493,900 | 4,262,357 |
| | | **7,242,115** |
| **Electronic Equipment & Instruments 1.8%** | | |
| National Instruments Corp. | 229,500 | **4,865,400** |
| **Internet Software & Services 5.7%** | | |
| Digital River, Inc.* (d) | 194,500 | 6,175,375 |
| j2 Global Communications, Inc.* (d) | 134,800 | 4,642,512 |
| Websense, Inc.* | 101,100 | 4,857,855 |
| | | **15,675,742** |
| **Semiconductors & Semiconductor Equipment 6.8%** | | |
| Emulex Corp.* | 323,100 | 5,899,806 |
| FormFactor, Inc.* | 154,000 | 4,068,680 |
| Power Integrations, Inc.* | 166,800 | 3,597,876 |
| Tessera Technologies, Inc.* | 151,500 | 5,061,615 |
| | | **18,627,977** |
| **Software 5.6%** | | |
| Hyperion Solutions Corp.* | 121,500 | 4,889,160 |
| Kronos, Inc.* | 100,300 | 4,051,117 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| THQ, Inc.* | 225,400 | 6,597,458 |
| | | **15,537,735** |

**Telecommunication Services 1.0%**

**Diversified Telecommunication Services**

| | | |
|---|---|---|
| NeuStar, Inc. "A"* | 109,000 | **2,790,400** |
| **Total Common Stocks** (Cost $227,042,693) | | **273,115,801** |

**Preferred Stocks 0.0%**

| | | |
|---|---|---|
| Convergent Networks, Inc. "D"* (c) | 113,149 | 10,183 |
| FusionOne "D"* (c) | 230,203 | 7,367 |
| **Total Preferred Stocks** (Cost $1,250,002) | | **17,550** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 14.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19%, (e) (f) (Cost $39,096,475) | 39,096,475 | **39,096,475** |
| **Cash Equivalents 1.2%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $3,311,966) | 3,311,966 | **3,311,966** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $270,701,136) (a) | 114.5 | **315,541,792** |
| **Other Assets and Liabilities, Net** | (14.5) | **(40,010,572)** |
| **Net Assets** | 100.0 | **275,531,220** |

## Notes to Scudder Small Cap Growth Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $270,701,136. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $44,840,656. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $50,898,425 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,057,769.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *The Portfolio may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Portfolio may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Portfolio's decision to sell a restricted security and the point at which the Portfolio is permitted or able to sell such a security, the Portfolio might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Portfolio.*

### Schedule of Restricted Securities

| Securities | Acquisition Dates | Acquisition Cost ($) | Value ($) | Value as % of Net Assets |
|---|---|---|---|---|
| Convergent Networks, Inc. "D" | June 2003 | — | 10,183 | .003 |
| FusionOne "D" | October 2000 | 1,250,002 | 7,367 | .003 |
| **Total Restricted Securities** | | | **17,550** | **.006** |

(d) *All or a portion of these securities were on loan (see Notes to Financials Statements). The value of all securities loaned at June 30, 2005 amounted to $38,132,626, which is 13.8% of net assets.*

(e) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(f) *Represents collateral held in connection with securities lending.*

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $228,292,695) — including $38,132,626 of securities loaned | $ | 273,133,351 |
| Investment in Scudder Daily Assets Fund Institutional (cost $39,096,475)* | | 39,096,475 |
| Investment in Scudder Cash Management QP Trust (cost $3,311,966) | | 3,311,966 |
| Total investments in securities, at value (cost $270,701,136) | | 315,541,792 |
| Receivable for investments sold | | 3,025,861 |
| Dividends receivable | | 2,597 |
| Interest receivable | | 28,754 |
| Receivable for Portfolio shares sold | | 3,802 |
| Other assets | | 6,271 |
| Total assets | | 318,609,077 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 3,548,107 |
| Payable upon return of securities loaned | | 39,096,475 |
| Payable for Portfolio shares redeemed | | 224,592 |
| Accrued management fee | | 147,894 |
| Other accrued expenses and payables | | 60,789 |
| Total liabilities | | 43,077,857 |
| **Net assets, at value** | **$** | **275,531,220** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated net investment loss | | (635,473) |
| Net unrealized appreciation (depreciation) on investments | | 44,840,656 |
| Accumulated net realized gain (loss) | | (125,408,519) |
| Paid-in capital | | 356,734,556 |
| **Net assets, at value** | **$** | **275,531,220** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($238,601,751 ÷ 18,754,190 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.72** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($36,929,469 ÷ 2,932,802 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.59** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 138,604 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 49,117 |
| Interest — Scudder Cash Management QP Trust | | 83,425 |
| Total Income | | 271,146 |
| Expenses: | | |
| Management fee | | 775,666 |
| Custodian fees | | 9,212 |
| Distribution service fees (Class B) | | 37,559 |
| Record keeping fees (Class B) | | 19,036 |
| Auditing | | 27,040 |
| Legal | | 6,996 |
| Trustees' fees and expenses | | 1,866 |
| Reports to shareholders | | 20,112 |
| Other | | 8,383 |
| Total expenses, before expense reductions | | 905,870 |
| Expense reductions | | (1,104) |
| Total expenses, after expense reductions | | 904,766 |
| **Net investment income (loss)** | | **(633,620)** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from investments | | 11,094,936 |
| Net unrealized appreciation (depreciation) during the period on investments | | (3,838,457) |
| **Net gain (loss) on investment transactions** | | **7,256,479** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **6,622,859** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (633,620) | $ (1,143,378) |
| Net realized gain (loss) on investment transactions | 11,094,936 | 9,898,921 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (3,838,457) | 14,522,914 |
| Net increase (decrease) in net assets resulting from operations | 6,622,859 | 23,278,457 |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 10,724,878 | 41,819,691 |
| Net assets acquired in tax free reorganization | 37,649,364 | — |
| Cost of shares redeemed | (25,704,052) | (62,320,969) |
| Net increase (decrease) in net assets from Class A share transactions | 22,670,190 | (20,501,278) |
| **Class B** | | |
| Proceeds from shares sold | 9,423,065 | 11,462,792 |
| Net assets acquired in tax free reorganization | 7,786,470 | — |
| Cost of shares redeemed | (9,377,228) | (1,207,862) |
| Net increase (decrease) in net assets from Class B share transactions | 7,832,307 | 10,254,930 |
| **Increase (decrease) in net assets** | 37,125,356 | 13,032,109 |
| Net assets at beginning of period | 238,405,864 | 225,373,755 |
| Net assets at end of period (including accumulated net investment loss of $635,473 and $1,853, respectively) | **$ 275,531,220** | **$ 238,405,864** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 16,708,714 | 18,522,593 |
| Shares sold | 876,372 | 3,534,946 |
| Shares issued in tax free reorganization | 3,256,621 | — |
| Shares redeemed | (2,087,517) | (5,348,825) |
| Net increase (decrease) in Portfolio shares | 2,045,476 | (1,813,879) |
| Shares outstanding at end of period | **18,754,190** | **16,708,714** |
| **Class B** | | |
| Shares outstanding at beginning of period | 2,250,352 | 1,358,975 |
| Shares sold | 813,391 | 996,848 |
| Shares issued in tax free reorganization | 680,062 | — |
| Shares redeemed | (811,003) | (105,471) |
| Net increase (decrease) in Portfolio shares | 682,450 | 891,377 |
| Shares outstanding at end of period | **2,932,802** | **2,250,352** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.59** | **$ 11.34** | **$ 8.53** | **$ 12.80** | **$ 21.64** | **$ 26.54** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | (.03) | (.05) | (.04) | (.02) | (.02) | (.09) |
| Net realized and unrealized gain (loss) on investment transactions | .16 | 1.30 | 2.85 | (4.25) | (6.27) | (2.01) |
| **Total from investment operations** | .13 | 1.25 | 2.81 | (4.27) | (6.29) | (2.10) |
| *Less distributions from:* | | | | | | |
| Net realized gains on investment transactions | — | — | — | — | (2.52) | (2.80) |
| Return of capital | — | — | — | — | (.03) | — |
| **Total distributions** | — | — | — | — | (2.55) | (2.80) |
| **Net asset value, end of period** | **$ 12.72** | **$ 12.59** | **$ 11.34** | **$ 8.53** | **$ 12.80** | **$ 21.64** |
| Total Return (%) | 1.03** | 11.02 | 32.94 | (33.36) | (28.91) | (10.71) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 239 | 210 | 210 | 154 | 232 | 301 |
| Ratio of expenses (%) | .71* | .71 | .69 | .71 | .68 | .72 |
| Ratio of net investment income (loss) (%) | (.48)* | (.47) | (.41) | (.24) | (.12) | (.34) |
| Portfolio turnover rate (%) | 97* | 117 | 123 | 68 | 143 | 124 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 12.48** | **$ 11.29** | **$ 8.52** | **$ 9.39** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.05) | (.10) | (.09) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | .16 | 1.29 | 2.86 | (.85) |
| **Total from investment operations** | .11 | 1.19 | 2.77 | (.87) |
| **Net asset value, end of period** | **$ 12.59** | **$ 12.48** | **$ 11.29** | **$ 8.52** |
| Total Return (%) | .88** | 10.54 | 32.51 | (9.27)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 37 | 28 | 15 | .5 |
| Ratio of expenses before expense reductions (%) | 1.09* | 1.10 | 1.08 | .96* |
| Ratio of expenses after expense reductions (%) | 1.09* | 1.09 | 1.08 | .96* |
| Ratio of net investment income (loss) (%) | (.86)* | (.85) | (.80) | (.39)* |
| Portfolio turnover rate (%) | 97* | 117 | 123 | 68 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Scudder Strategic Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,014.00 | $ 1,012.10 |
| Expenses Paid per $1,000* | $ 4.19 | $ 6.04 |
| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.63 | $ 1,018.79 |
| Expenses Paid per $1,000* | $ 4.21 | $ 6.06 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Strategic Income Portfolio | .84% | 1.21% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Strategic Income Portfolio

The bond markets began to show more volatility over the past six months. In March and April, high-yield issues in particular were affected by a combination of rich valuations, the US Federal Reserve Board's (the Fed) continuing hikes of short rates, and uncertainty over downgrades to high-yield status for GM and Ford. As the auto picture gained clarity in May, and the economic backdrop in the United States continued to evidence moderate, stable growth, the high-yield sector recovered. Emerging markets debt did not experience as much stress and showed better returns for the period than the high-yield sector.

For the six-month period ended June 30, 2005, the portfolio posted a 1.40% total return (Class A shares, unadjusted for contract charges). This compares with the portfolio benchmarks' returns of 5.52% for the JP Morgan Emerging Markets Bond Plus Index, 1.22% for the Merrill Lynch High Yield Master Index, 3.20% for the Lehman Brothers US Treasury Index and -3.97% for the Citigroup World Government Bond Index.

During the six months, we modestly decreased our exposure to high-yield and emerging markets bonds in view of the narrower yield advantage they provide following a period of strong performance. In addition to the high-yield and emerging markets sectors, a significant portion of the portfolio is invested in high-quality sovereign, agency and provincial bonds. These include US Treasury bonds, as well as debt of the United Kingdom, countries within the European Union and yen-denominated bonds. While our allocation to emerging markets helped returns, our high yield and global government positioning held back overall portfolio performance.

Jan Faller, CFA

Lead Manager

Andrew P. Cestone
Sean P. McCaffrey, CFA

Portfolio Managers
Deutsche Investment Management Americas Inc.

Brett Diment
Edwin Gutierrez

Portfolio Managers
Deutsche Asset Management Investment Services Ltd.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Additionally, investments by the portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. Finally, investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The JP Morgan Emerging Markets Bond Plus Index is an unmanaged foreign securities index of US dollar and other external-currency-denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets.*

*The Merrill Lynch High Yield Master Index is an unmanaged index which tracks the performance of below-investment-grade US dollar-denominated corporate bonds publicly issued in the United States domestic market.*

*The Lehman Brothers US Treasury Index is an unmanaged index reflecting the performance of all public obligations and does not focus on one particular segment of the Treasury market.*

*The Citigroup World Government Bond Index (formerly known as Salomon Smith Barney World Government Bond Index) is an unmanaged index comprised of government bonds from 18 developed countries, including the US, with maturities greater than one year.*

*Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Strategic Income Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Corporate Bonds | 35% | 40% |
| Foreign Bonds — US$ Denominated | 22% | 21% |
| Foreign Bonds — Non US$ Denominated | 18% | 19% |
| US Government Backed | 14% | 13% |
| Cash Equivalents | 8% | 2% |
| US Government Sponsored Agencies | 3% | 4% |
| Other | — | 1% |
| | 100% | 100% |

| **Quality** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| AAA* | 27% | 30% |
| AA | 1% | 2% |
| A | 3% | 4% |
| BBB | 7% | 5% |
| BB | 16% | 16% |
| B | 26% | 31% |
| CCC | 5% | 6% |
| Below CC | — | 1% |
| Not rated | 15% | 5% |
| | 100% | 100% |

* *Includes cash equivalents*

| **Interest Rate Sensitivity** | 6/30/05 | 12/31/04 |
|---|---|---|
| Average maturity | 7.9 years | 7.5 years |
| Average duration | 5.6 years | 5.4 years |

*Asset allocation, quality and interest rate sensitivity are subject to change.*

*The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk.*

*For more complete details about the Portfolio's investment portfolio, see page 95. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Strategic Income Portfolio

| | | Principal Amount ($)(c) | Value ($) |
|---|---|---|---|
| **Corporate Bonds 33.5%** | | | |
| **Consumer Discretionary 7.7%** | | | |
| 155 East Tropicana LLC/Finance, 144A, 8.75%, 4/1/2012 (e) | | 65,000 | 63,213 |
| Adesa, Inc., 7.625%, 6/15/2012 | | 35,000 | 35,525 |
| AMC Entertainment, Inc., 8.0%, 3/1/2014 (e) | | 160,000 | 142,000 |
| AutoNation, Inc., 9.0%, 8/1/2008 | | 55,000 | 60,088 |
| Aztar Corp., 7.875%, 6/15/2014 (e) | | 155,000 | 163,912 |
| Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011 (e) | | 35,000 | 34,956 |
| Cablevision Systems New York Group, Series B, 7.89%**, 4/1/2009 (e) | | 55,000 | 55,138 |
| Caesars Entertainment, Inc.: | | | |
| 8.875%, 9/15/2008 | | 50,000 | 55,813 |
| 9.375%, 2/15/2007 | | 30,000 | 32,250 |
| Charter Communications Holdings LLC: | | | |
| Step-up Coupon 0% to 5/15/2006, 11.75% to 5/15/2011 | | 110,000 | 72,875 |
| 9.625%, 11/15/2009 (e) | | 175,000 | 130,813 |
| 10.25%, 9/15/2010 | | 330,000 | 333,712 |
| Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (e) | | 115,000 | 90,850 |
| CSC Holdings, Inc.: | | | |
| 7.25%, 7/15/2008 | | 40,000 | 40,100 |
| 7.875%, 12/15/2007 | | 160,000 | 165,200 |
| Dex Media East LLC/Financial, 12.125%, 11/15/2012 | | 426,000 | 510,135 |
| Dura Operating Corp.: | | | |
| Series B, 8.625%, 4/15/2012 (e) | | 60,000 | 54,000 |
| Series B, 9.0%, 5/1/2009 | EUR | 20,000 | 16,700 |
| EchoStar DBS Corp., 6.625%, 10/1/2014 | | 30,000 | 29,625 |
| Foot Locker, Inc., 8.5%, 1/15/2022 | | 80,000 | 87,800 |
| Ford Motor Co., 7.45%, 7/16/2031 | | 15,000 | 12,522 |
| Gregg Appliances, Inc., 144A, 9.0%, 2/1/2013 | | 60,000 | 56,250 |
| Interep National Radio Sales, Inc., Series B, 10.0%, 7/1/2008 (e) | | 80,000 | 66,500 |
| ITT Corp., 7.375%, 11/15/2015 | | 85,000 | 94,563 |
| Jacobs Entertainment, Inc.: | | | |
| 11.875%, 2/1/2009 | | 205,000 | 221,144 |
| 144A, 11.875%, 2/1/2009 | | 70,000 | 75,512 |
| Levi Strauss & Co., 7.73%**, 4/1/2012 | | 50,000 | 47,250 |
| Mediacom LLC, 9.5%, 1/15/2013 (e) | | 125,000 | 124,687 |
| MGM MIRAGE: | | | |
| 8.375%, 2/1/2011 (e) | | 200,000 | 218,000 |
| 9.75%, 6/1/2007 | | 65,000 | 70,444 |
| MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010 | | 40,000 | 43,400 |
| NCL Corp., 144A, 11.625%, 7/15/2005 | | 110,000 | 115,775 |
| Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 | | 155,000 | 106,950 |
| Paxson Communications Corp.: | | | |
| Step-up Coupon, 0% to 1/15/2006, 12.25% to 1/15/2009 (e) | | 50,000 | 46,750 |
| 10.75%, 7/15/2008 (e) | | 40,000 | 39,400 |
| Petro Stopping Centers, 9.0%, 2/15/2012 | | 160,000 | 160,800 |
| Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 | | 85,000 | 90,100 |
| Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012 | | 130,000 | 126,100 |
| PRIMEDIA, Inc.: | | | |
| 8.638%**, 5/15/2010 | | 155,000 | 161,975 |
| 8.875%, 5/15/2011 | | 145,000 | 151,887 |
| Renaissance Media Group LLC, 10.0%, 4/15/2008 | | 85,000 | 84,150 |
| Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009 | | 160,000 | 182,200 |
| Restaurant Co., 11.25%, 5/15/2008 | | 118,709 | 118,709 |
| Schuler Homes, Inc., 10.5%, 7/15/2011 | | 220,000 | 242,550 |
| Simmons Bedding Co.: | | | |
| 144A, Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014 | | 220,000 | 99,000 |
| 7.875%, 1/15/2014 (e) | | 45,000 | 38,700 |
| Sinclair Broadcast Group, Inc.: | | | |
| 8.0%, 3/15/2012 | | 190,000 | 194,750 |
| 8.75%, 12/15/2011 | | 210,000 | 220,500 |
| Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013 | | 60,000 | 60,600 |
| Toys "R" Us, Inc., 7.375%, 10/15/2018 | | 110,000 | 89,100 |
| Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (e) | | 255,000 | 248,944 |
| TRW Automotive, Inc.: | | | |
| 11.0%, 2/15/2013 (e) | | 180,000 | 207,000 |
| 11.75%, 2/15/2013 | EUR | 35,000 | 49,344 |
| United Auto Group, Inc., 9.625%, 3/15/2012 | | 140,000 | 149,450 |
| Wheeling Island Gaming, Inc., 10.125%, 12/15/2009 | | 45,000 | 47,700 |
| Williams Scotsman, Inc., 9.875%, 6/1/2007 | | 220,000 | 221,100 |
| Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014 | | 105,000 | 102,112 |
| XM Satellite Radio, Inc.: | | | |
| Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009 | | 166,321 | 171,726 |
| 12.0%, 6/15/2010 | | 10,000 | 11,250 |
| Young Broadcasting, Inc.: | | | |
| 8.75%, 1/15/2014 (e) | | 160,000 | 141,600 |
| 10.0%, 3/1/2011 | | 35,000 | 33,250 |
| | | | **6,918,449** |
| **Consumer Staples 1.1%** | | | |
| Alliance One International, Inc.: | | | |
| 144A, 11.0%, 5/15/2012 | | 125,000 | 128,750 |
| 144A, 12.75%, 11/15/2012 | | 40,000 | 38,000 |
| Del Laboratories, Inc., 144A, 8.0%, 2/1/2012 | | 60,000 | 51,600 |
| Duane Reade, Inc., 9.75%, 8/1/2011 | | 60,000 | 48,900 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| GNC Corp.: | | |
| 8.5%, 12/1/2010 | 40,000 | 32,000 |
| 144A, 8.625%, 1/15/2011 | 10,000 | 9,250 |
| National Beef Packing Co., 10.5%, 8/1/2011 (e) | 35,000 | 33,338 |
| North Atlantic Trading Co., 9.25%, 3/1/2012 | 230,000 | 173,650 |
| Pinnacle Foods Holding Corp., 8.25%, 12/1/2013 (e) | 70,000 | 62,650 |
| Rite Aid Corp., 11.25%, 7/1/2008 (e) | 145,000 | 153,156 |
| Swift & Co.: | | |
| 10.125%, 10/1/2009 | 105,000 | 114,450 |
| 12.5%, 1/1/2010 | 25,000 | 27,906 |
| Viskase Co., Inc., 11.5%, 6/15/2011 | 100,000 | 108,000 |
| | | **981,650** |

### Energy 2.0%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Belden & Blake Corp., 8.75%, 7/15/2012 (e) | 110,000 | 107,800 |
| Chesapeake Energy Corp., 6.875%, 1/15/2016 | 15,000 | 15,638 |
| CITGO Petroleum Corp., 6.0%, 10/15/2011 | 135,000 | 134,663 |
| Dynegy Holdings, Inc.: | | |
| 6.875%, 4/1/2011 (e) | 40,000 | 39,500 |
| 7.125%, 5/15/2018 | 100,000 | 95,250 |
| 7.625%, 10/15/2026 (e) | 65,000 | 61,912 |
| 8.75%, 2/15/2012 (e) | 20,000 | 21,800 |
| 144A, 9.875%, 7/15/2010 | 150,000 | 165,750 |
| El Paso Production Holding Corp., 7.75%, 6/1/2013 | 100,000 | 106,750 |
| Key Energy Services, Inc., 6.375%, 5/1/2013 | 35,000 | 35,175 |
| Newpark Resources, Inc., Series B, 8.625%, 12/15/2007 | 150,000 | 148,500 |
| NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027 | 100,000 | 87,500 |
| Sonat, Inc., 7.0%, 2/1/2018 | 60,000 | 55,950 |
| Southern Natural Gas, 8.875%, 3/15/2010 | 110,000 | 120,662 |
| Stone Energy Corp.: | | |
| 6.75%, 12/15/2014 | 75,000 | 72,937 |
| 8.25%, 12/15/2011 | 170,000 | 178,075 |
| Whiting Petroleum Corp.: | | |
| 7.25%, 5/1/2012 | 10,000 | 10,250 |
| 7.25%, 5/1/2013 (e) | 15,000 | 15,300 |
| Williams Companies, Inc.: | | |
| 8.125%, 3/15/2012 (e) | 210,000 | 238,350 |
| 8.75%, 3/15/2032 | 65,000 | 78,081 |
| | | **1,789,843** |

### Financials 5.3%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012 | 35,000 | 23,625 |
| Affinia Group, Inc., 144A, 9.0%, 11/30/2014 | 150,000 | 126,000 |
| Alamosa Delaware, Inc., Step-up Coupon, 0% to 7/31/2005, 12.0% to 7/31/2009 (e) | 65,000 | 71,663 |
| AmeriCredit Corp., 9.25%, 5/1/2009 | 235,000 | 250,275 |
| Atlantic Mutual Insurance Co., 144A, 8.15%, 2/15/2028 | 40,000 | 26,424 |
| BF Saul Real Estate Investment Trust, (REIT) 7.5%, 3/1/2014 | 50,000 | 51,750 |
| E*TRADE Financial Corp., 8.0%, 6/15/2011 | 115,000 | 121,037 |
| FINOVA Group, Inc., 7.5%, 11/15/2009 | 295,850 | 131,653 |
| Ford Motor Credit Co., 7.25%, 10/25/2011 (e) | 175,000 | 168,397 |
| General Motors Acceptance Corp.: | | |
| 4.13%**, 3/20/2007 | 150,000 | 145,475 |
| 6.125%, 8/28/2007 (e) | 40,000 | 39,589 |
| 6.75%, 12/1/2014 (e) | 55,000 | 49,207 |
| 6.875%, 9/15/2011 (e) | 20,000 | 18,462 |
| 8.0%, 11/1/2031 | 625,000 | 557,714 |
| H&E Equipment/Finance, 11.125%, 6/15/2012 | 110,000 | 121,275 |
| Neff Rental/Neff Finance Corp., 144A, 11.25%, 6/15/2012 | 35,000 | 35,000 |
| Poster Financial Group, Inc., 8.75%, 12/1/2011 | 105,000 | 106,838 |
| PXRE Capital Trust I, 8.85%, 2/1/2027 | 95,000 | 98,508 |
| Qwest Capital Funding, Inc., 6.5%, 11/15/2018 | 40,000 | 32,800 |
| R.H. Donnelly Finance Corp., 10.875%, 12/15/2012 | 85,000 | 98,813 |
| Radnor Holdings Corp., 11.0%, 3/15/2010 (e) | 175,000 | 119,437 |
| Rafaella Apparel Group, Inc., 144A, 11.25%, 6/15/2011 | 45,000 | 43,313 |
| RC Royalty Subordinated LLC, 7.0%, 1/1/2018 | 95,000 | 77,900 |
| Tennessee Valley Authority, Series A, 6.79%, 5/23/2012 | 1,500,000 | 1,736,577 |
| TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027 | 135,000 | 109,350 |
| Triad Acquisition, 144A, 11.125%, 5/1/2013 | 70,000 | 70,875 |
| UGS Corp., 10.0%, 6/1/2012 | 140,000 | 155,400 |
| Universal City Development, 11.75%, 4/1/2010 | 175,000 | 200,812 |
| | | **4,788,169** |

### Health Care 0.7%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Cinacalcet Royalty Subordinated LLC, 144A, 8.0%, 3/30/2017 | 70,000 | 70,700 |
| Encore Medical Corp., 9.75%, 10/1/2012 | 40,000 | 38,800 |
| Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 (e) | 55,000 | 50,738 |
| HEALTHSOUTH Corp., 10.75%, 10/1/2008 | 140,000 | 145,600 |
| InSight Health Services Corp., Series B, 9.875%, 11/1/2011 (e) | 100,000 | 78,000 |
| Tenet Healthcare Corp., 144A, 9.25%, 2/1/2015 | 295,000 | 306,062 |
| | | **689,900** |

### Industrials 5.0%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007 | 210,000 | 222,337 |
| Allied Security Escrow Corp., 11.375%, 7/15/2011 | 130,000 | 126,750 |
| Allied Waste North America, Inc.: | | |
| Series B, 5.75%, 2/15/2011 | 235,000 | 219,725 |
| Series B, 9.25%, 9/1/2012 (e) | 132,000 | 142,560 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| American Color Graphics, 10.0%, 6/15/2010 (e) | 110,000 | 79,200 |
| Avondale Mills, Inc., 144A, 10.093%**, 7/1/2012 | 105,000 | 98,700 |
| Bear Creek Corp., 144A, 8.33%**, 3/1/2012 | 55,000 | 53,350 |
| Beazer Homes USA, Inc.: | | |
| 8.375%, 4/15/2012 | 75,000 | 80,437 |
| 8.625%, 5/15/2011 | 50,000 | 53,000 |
| Browning-Ferris Industries: | | |
| 7.4%, 9/15/2035 | 185,000 | 159,100 |
| 9.25%, 5/1/2021 | 20,000 | 20,250 |
| Cenveo Corp., 7.875%, 12/1/2013 | 115,000 | 109,250 |
| Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 | 189,000 | 195,615 |
| Columbus McKinnon Corp., 10.0%, 8/1/2010 | 75,000 | 81,375 |
| Compression Polymers Corp.: | | |
| 144A, 10.46%**, 7/1/2012 | 40,000 | 40,000 |
| 144A, 10.5%, 7/1/2013 | 80,000 | 80,000 |
| Congoleum Corp., 8.625%, 8/1/2008* | 80,000 | 78,200 |
| Cornell Companies, Inc., 10.75%, 7/1/2012 | 105,000 | 108,938 |
| Dana Corp., 7.0%, 3/1/2029 | 125,000 | 109,201 |
| Erico International Corp., 8.875%, 3/1/2012 | 45,000 | 45,675 |
| Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012 (e) | 90,000 | 83,250 |
| HydroChem Industrial Services, Inc., 144A, 9.25%, 2/15/2013 | 20,000 | 18,500 |
| ISP Chemco, Inc., Series B, 10.25%, 7/1/2011 | 215,000 | 234,350 |
| K. Hovnanian Enterprises, Inc., 8.875%, 4/1/2012 | 110,000 | 119,075 |
| Kansas City Southern: | | |
| 7.5%, 6/15/2009 | 40,000 | 41,300 |
| 9.5%, 10/1/2008 | 245,000 | 267,050 |
| Kinetek, Inc., Series D, 10.75%, 11/15/2006 | 180,000 | 163,800 |
| Laidlaw International, Inc., 10.75%, 6/15/2011 | 115,000 | 134,743 |
| Metaldyne Corp., 144A, 10.0%, 11/1/2013 (e) | 115,000 | 94,300 |
| Millennium America, Inc., 9.25%, 6/15/2008 | 215,000 | 232,737 |
| NTK Holdings, Inc., 144A, Step-up Coupon, 0% to 9/1/2009, 10.75% to 3/1/2014 | 100,000 | 47,000 |
| Rainbow National Services LLC, 144A, 10.375%, 9/1/2014 | 100,000 | 115,000 |
| Remington Arms Co., Inc., 10.5%, 2/1/2011 (e) | 60,000 | 56,700 |
| Sea Containers Ltd., Series B, 10.75%, 10/15/2006 | 20,000 | 20,200 |
| Securus Technologies, Inc., 144A, 11.0%, 9/1/2011 | 75,000 | 63,375 |
| Ship Finance International Ltd., 8.5%, 12/15/2013 | 180,000 | 171,225 |
| Technical Olympic USA, Inc.: | | |
| 7.5%, 3/15/2011 | 55,000 | 51,150 |
| 10.375%, 7/1/2012 | 195,000 | 203,775 |
| The Brickman Group Ltd., Series B, 11.75%, 12/15/2009 | 75,000 | 84,938 |
| United Rentals North America, Inc., 7.0%, 2/15/2014 (e) | 170,000 | 161,925 |

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Xerox Capital Trust I, 8.0%, 2/1/2027 | 60,000 | 62,100 |
| | | **4,530,156** |

### Information Technology 1.0%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Activant Solutions, Inc.: | | |
| 144A, 8.904%**, 4/1/2010 | 15,000 | 15,525 |
| 10.5%, 6/15/2011 | 95,000 | 103,075 |
| Eschelon Operating Co.: | | |
| 8.375%, 3/15/2010 | 20,000 | 17,400 |
| 8.375%, 3/15/2010 (e) | 30,000 | 26,100 |
| Lucent Technologies, Inc.: | | |
| 6.45%, 3/15/2029 | 215,000 | 192,425 |
| 7.25%, 7/15/2006 (e) | 40,000 | 40,900 |
| Sanmina-SCI Corp.: | | |
| 144A, 6.75%, 3/1/2013 (e) | 275,000 | 262,625 |
| 10.375%, 1/15/2010 | 159,000 | 176,490 |
| Viasystems, Inc., 10.5%, 1/15/2011 | 40,000 | 36,800 |
| | | **871,340** |

### Materials 4.8%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Aqua Chemical, Inc., 11.25%, 7/1/2008 | 50,000 | 42,000 |
| ARCO Chemical Co., 9.8%, 2/1/2020 | 390,000 | 436,800 |
| Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014 | 265,000 | 168,275 |
| Caraustar Industries, Inc., 9.875%, 4/1/2011 (e) | 245,000 | 246,837 |
| Constar International, Inc.: | | |
| 144A, 6.643%**, 2/15/2012 | 50,000 | 47,750 |
| 11.0%, 12/1/2012 (e) | 15,000 | 11,925 |
| Dayton Superior Corp.: | | |
| 10.75%, 9/15/2008 | 85,000 | 88,400 |
| 13.0%, 6/15/2009 (e) | 175,000 | 154,000 |
| Edgen Acquisition Corp., 144A, 9.875%, 2/1/2011 | 60,000 | 58,200 |
| GEO Specialty Chemicals, Inc., 10.125%, 8/1/2008 * | 93,000 | 98,580 |
| Georgia-Pacific Corp.: | | |
| 8.0%, 1/15/2024 | 210,000 | 241,500 |
| 9.375%, 2/1/2013 | 155,000 | 175,344 |
| Hercules, Inc., 6.75%, 10/15/2029 | 90,000 | 87,300 |
| Huntsman Advanced Materials LLC, 11.0%, 7/15/2010 | 140,000 | 158,200 |
| Huntsman International LLC, 10.125%, 7/1/2009 EUR | 85,000 | 106,720 |
| Huntsman LLC, 11.625%, 10/15/2010 | 188,000 | 220,195 |
| IMC Global, Inc.: | | |
| 7.375%, 8/1/2018 | 35,000 | 35,000 |
| 10.875%, 8/1/2013 (e) | 118,000 | 138,355 |
| Intermet Corp., 9.75%, 6/15/2009* (e) | 15,000 | 6,488 |
| MMI Products, Inc., Series B, 11.25%, 4/15/2007 | 105,000 | 103,687 |
| Neenah Foundry Co.: | | |
| 144A, 11.0%, 9/30/2010 | 195,000 | 211,575 |
| 144A, 13.0%, 9/30/2013 | 94,000 | 93,060 |
| NewPage Corp., 144A, 9.46%**, 5/1/2012 (e) | 90,000 | 90,225 |
| Omnova Solutions, Inc., 11.25%, 6/1/2010 | 205,000 | 215,250 |
| Oregon Steel Mills, Inc., 10.0%, 7/15/2009 | 55,000 | 59,262 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010 * (e) | 167,321 | 83,661 |
| Portola Packaging, Inc., 8.25%, 2/1/2012 (e) | 150,000 | 102,000 |
| Rockwood Specialties Group, Inc.: | | |
| 144A, 7.625%, 11/15/2014 EUR | 90,000 | 110,003 |
| 10.625%, 5/15/2011 | 15,000 | 16,762 |
| Sheffield Steel Corp., 11.375%, 8/15/2011 | 55,000 | 53,350 |
| Texas Industries, Inc., 10.25%, 6/15/2011 (e) | 165,000 | 191,194 |
| TriMas Corp., 9.875%, 6/15/2012 | 250,000 | 210,000 |
| UAP Holding Corp., Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012 | 90,000 | 73,800 |
| United States Steel Corp., 9.75%, 5/15/2010 (e) | 150,000 | 162,000 |
| | | **4,297,698** |
| **Telecommunication Services 3.0%** | | |
| AirGate PCS, Inc., 6.891%**, 10/15/2011 | 50,000 | 51,125 |
| American Cellular Corp., Series B, 10.0%, 8/1/2011 (e) | 125,000 | 126,875 |
| AT&T Corp.: | | |
| 9.05%, 11/15/2011 | 126,000 | 145,215 |
| 9.75%, 11/15/2031 | 140,000 | 182,175 |
| Cincinnati Bell, Inc.: | | |
| 7.25%, 7/15/2013 (e) | 40,000 | 42,000 |
| 8.375%, 1/15/2014 (e) | 315,000 | 322,875 |
| 144A, 8.375%, 1/15/2014 | 20,000 | 20,500 |
| Dobson Communications Corp., 8.875%, 10/1/2013 | 65,000 | 59,475 |
| Insight Midwest LP, 9.75%, 10/1/2009 | 50,000 | 51,813 |
| LCI International, Inc., 7.25%, 6/15/2007 | 130,000 | 126,100 |
| Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011 (e) | 25,000 | 21,063 |
| MCI, Inc., 8.735%, 5/1/2014 | 185,000 | 207,431 |
| Nextel Communications, Inc.: | | |
| 5.95%, 3/15/2014 | 120,000 | 124,650 |
| 7.375%, 8/1/2015 | 340,000 | 367,200 |
| Nextel Partners, Inc., 8.125%, 7/1/2011 | 85,000 | 92,225 |
| Qwest Corp.: | | |
| 144A, 6.671%**, 6/15/2013 | 50,000 | 51,187 |
| 7.25%, 9/15/2025 | 135,000 | 126,225 |
| Qwest Services Corp.: | | |
| 13.5%, 12/15/2010 | 285,000 | 329,175 |
| 14.0%, 12/15/2014 | 45,000 | 54,562 |
| Rural Cellular Corp., 9.875%, 2/1/2010 | 10,000 | 10,325 |
| SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011 (e) | 27,000 | 24,840 |
| Triton PCS, Inc., 8.5%, 6/1/2013 (e) | 30,000 | 27,675 |
| Ubiquitel Operating Co., 9.875%, 3/1/2011 | 35,000 | 38,413 |
| US Unwired, Inc., Series B, 10.0%, 6/15/2012 | 65,000 | 72,313 |
| Western Wireless Corp., 9.25%, 7/15/2013 | 15,000 | 17,081 |
| | | **2,692,518** |

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| **Utilities 2.9%** | | |
| AES Corp., 144A, 8.75%, 5/15/2013 | 205,000 | 229,087 |
| Allegheny Energy Supply Co. LLC: | | |
| 144A, 8.25%, 4/15/2012 (e) | 285,000 | 319,200 |
| Series A, 144A, 10.25%, 11/15/2007 | 110,000 | 121,000 |
| Series B, 144A, 13.0%, 11/15/2007 | 40,000 | 44,150 |
| Calpine Corp.: | | |
| 7.625%, 4/15/2006 | 35,000 | 32,813 |
| 144A, 8.5%, 7/15/2010 | 165,000 | 127,050 |
| CMS Energy Corp.: | | |
| 8.5%, 4/15/2011 (e) | 135,000 | 150,525 |
| 9.875%, 10/15/2007 | 210,000 | 228,900 |
| DPL, Inc., 6.875%, 9/1/2011 | 110,000 | 118,800 |
| Mission Energy Holding Co., 13.5%, 7/15/2008 | 350,000 | 415,625 |
| NorthWestern Corp., 144A, 5.875%, 11/1/2014 | 35,000 | 35,875 |
| NRG Energy, Inc., 144A, 8.0%, 12/15/2013 | 291,000 | 307,005 |
| PSE&G Energy Holdings LLC: | | |
| 8.5%, 6/15/2011 (e) | 120,000 | 130,800 |
| 10.0%, 10/1/2009 | 210,000 | 235,725 |
| Tenaska Alabama Partners LP, 144A, 7.0%, 6/30/2021 | 100,000 | 101,250 |
| | | **2,597,805** |
| **Total Corporate Bonds** (Cost $30,265,991) | | **30,137,328** |

## Foreign Bonds — US$ Denominated 22.4%

| | | |
|---|---|---|
| **Consumer Discretionary 1.0%** | | |
| Jafra Cosmetics International, Inc., 10.75%, 5/15/2011 | 183,000 | 204,960 |
| Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014 | 150,000 | 162,750 |
| Shaw Communications, Inc., 8.25%, 4/11/2010 | 220,000 | 244,200 |
| Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014 (e) | 190,000 | 147,725 |
| Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011 | 15,000 | 14,550 |
| Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013 (e) | 130,000 | 108,550 |
| | | **882,735** |
| **Consumer Staples 0.1%** | | |
| Burns Philp Capital Property Ltd., 10.75%, 2/15/2011 | 110,000 | 121,275 |
| Grupo Cosan SA, 144A, 9.0%, 11/1/2009 | 30,000 | 31,050 |
| | | **152,325** |
| **Energy 2.2%** | | |
| Luscar Coal Ltd., 9.75%, 10/15/2011 | 135,000 | 148,500 |
| OAO Gazprom, 144A, 9.625%, 3/1/2013 (e) | 200,000 | 245,250 |
| Pemex Project Funding Master Trust: | | |
| 8.0%, 11/15/2011 | 250,000 | 284,000 |
| 9.5%, 9/15/2027 | 450,000 | 591,750 |
| Petroleum Geo-Services ASA, 10.0%, 11/5/2010 | 410,005 | 459,206 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Petroliam Nasional Berhad: | | |
| 7.625%, 10/15/2026 | 40,000 | 50,346 |
| 7.75%, 8/15/2015 | 80,000 | 98,455 |
| Secunda International Ltd., 11.141%**, 9/1/2012 | 85,000 | 82,875 |
| | | **1,960,382** |
| **Financials 0.3%** | | |
| Conproca SA de CV, 12.0%, 6/16/2010 | 100,000 | 123,500 |
| Eircom Funding, 8.25%, 8/15/2013 | 95,000 | 103,075 |
| New ASAT (Finance) Ltd., 9.25%, 2/1/2011 (e) | 50,000 | 41,750 |
| | | **268,325** |
| **Health Care 0.1%** | | |
| Biovail Corp., 7.875%, 4/1/2010 (e) | 120,000 | **122,700** |
| **Industrials 1.0%** | | |
| CP Ships Ltd., 10.375%, 7/15/2012 | 130,000 | 145,600 |
| Grupo Transportacion Ferroviaria Mexicana SA de CV: | | |
| 144A, 9.375%, 5/1/2012 | 120,000 | 124,800 |
| 10.25%, 6/15/2007 | 230,000 | 246,100 |
| 12.5%, 6/15/2012 | 90,000 | 105,300 |
| J. Ray McDermott SA, 144A, 11.5%, 12/15/2013 | 95,000 | 106,400 |
| LeGrand SA, 8.5%, 2/15/2025 | 75,000 | 90,750 |
| Stena AB, 9.625%, 12/1/2012 | 55,000 | 59,950 |
| | | **878,900** |
| **Materials 1.4%** | | |
| Alrosa Finance SA, 144A, 8.875%, 11/17/2014 | 100,000 | 113,000 |
| Cascades, Inc.: | | |
| 7.25%, 2/15/2013 | 135,000 | 131,963 |
| 144A, 7.25%, 2/15/2013 | 10,000 | 9,775 |
| Crown Euro Holdings SA, 10.875%, 3/1/2013 | 60,000 | 70,500 |
| ISPAT Inland ULC, 9.75%, 4/1/2014 | 137,000 | 159,605 |
| Rhodia SA, 8.875%, 6/1/2011 (e) | 265,000 | 255,062 |
| Sino-Forest Corp., 144A, 9.125%, 8/17/2011 | 10,000 | 10,925 |
| Tembec Industries, Inc.: | | |
| 8.5%, 2/1/2011 (e) | 430,000 | 332,175 |
| 8.625%, 6/30/2009 (e) | 205,000 | 167,075 |
| | | **1,250,080** |
| **Sovereign Bonds 15.0%** | | |
| Aries Vermogensverwaltung GmbH, Series C, 9.6%, 10/25/2014 | 750,000 | 974,505 |
| Central Bank of Nigeria, Series WW, 6.25%, 11/15/2020 | 500,000 | 492,500 |
| Dominican Republic: | | |
| 9.04%, 1/23/2018 | 120,000 | 124,800 |
| 144A, 9.04%, 1/23/2018 | 20,000 | 20,850 |
| 9.5%, 9/27/2011 | 120,000 | 128,400 |
| Federative Republic of Brazil: | | |
| Floating Rate Note Debt Conversion Bond, LIBOR plus .8125%, Series 30YR, 4.25%**, 4/15/2024 | 140,000 | 132,132 |

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Floating Rate Note Debt Conversion Bond, LIBOR Plus .875%, Series 18YR, 4.313%**, 4/15/2012 | 172,943 | 166,354 |
| 8.875%, 10/14/2019 | 70,000 | 74,200 |
| 11.0%, 1/11/2012 | 320,000 | 380,000 |
| 11.0%, 8/17/2040 | 360,000 | 433,080 |
| 14.5%, 10/15/2009 | 220,000 | 286,000 |
| Kingdom of Morocco, Series A, 3.803%, 1/2/2009 | 224,000 | 221,480 |
| Republic of Argentina, 8.28%, 12/31/2033 (e) | 894,943 | 823,348 |
| Republic of Bulgaria, 8.25%, 1/15/2015 | 490,000 | 616,959 |
| Republic of Colombia: | | |
| 10.75%, 1/15/2013 | 60,000 | 72,960 |
| 11.75%, 2/25/2020 | 110,000 | 144,650 |
| Republic of Ecuador, Step-up Coupon, 8.0% to 8/15/2005, 9.0% to 8/15/2006, 10.0% to 8/15/2030 | 680,000 | 566,100 |
| Republic of Indonesia, 7.25%, 4/20/2015 | 420,000 | 426,300 |
| Republic of Panama, 9.375%, 1/16/2023 | 160,000 | 197,600 |
| Republic of Peru, 9.875%, 2/6/2015 | 130,000 | 160,875 |
| Republic of Philippines: | | |
| 9.375%, 1/18/2017 | 740,000 | 791,800 |
| 9.5%, 2/2/2030 | 270,000 | 275,535 |
| 9.875%, 1/15/2019 | 205,000 | 221,656 |
| Republic of Turkey: | | |
| 7.375%, 2/5/2025 | 340,000 | 336,804 |
| 8.0%, 2/14/2034 | 60,000 | 62,250 |
| 11.75%, 6/15/2010 | 520,000 | 646,100 |
| 11.875%, 1/15/2030 | 80,000 | 115,700 |
| 12.375%, 6/15/2009 | 340,000 | 419,050 |
| Republic of Uruguay: | | |
| 7.25%, 2/15/2011 | 80,000 | 80,000 |
| 9.25%, 5/17/2017 | 380,000 | 406,600 |
| Republic of Venezuela: | | |
| 9.25%, 9/15/2027 | 140,000 | 146,790 |
| 9.375%, 1/13/2034 | 130,000 | 136,175 |
| 10.75%, 9/19/2013 (e) | 720,000 | 842,760 |
| Russian Federation, Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030 | 835,000 | 932,194 |
| Russian Ministry of Finance: | | |
| Series V, 3.0%, 5/14/2008 | 510,000 | 481,185 |
| Series VII, 3.0%, 5/14/2011 | 410,000 | 359,324 |
| United Mexican States: | | |
| Series A, 6.625%, 3/3/2015 | 400,000 | 440,200 |
| 8.3%, 8/15/2031 | 70,000 | 87,150 |
| Series A, 9.875%, 2/1/2010 | 220,000 | 266,090 |
| | | **13,490,456** |
| **Telecommunication Services 1.3%** | | |
| Alestra SA de RL de CV, 8.0%, 6/30/2010 | 40,000 | 36,000 |
| Axtel SA, 11.0%, 12/15/2013 | 70,000 | 76,300 |
| Embratel, Series B, 11.0%, 12/15/2008 | 55,000 | 62,563 |
| Global Crossing UK Finance, 144A, 10.75%, 12/15/2014 | 95,000 | 86,212 |
| Grupo Iusacell SA de CV, Series B, 10.0%, 7/15/2004 * | 20,000 | 15,200 |

*The accompanying notes are an integral part of the financial statements.*

| | | Principal Amount ($)(c) | Value ($) |
|---|---|---|---|
| Intelsat Bermuda Ltd., 144A, 7.805%**, 7/15/2005 | | 60,000 | 61,050 |
| Millicom International Cellular SA, 10.0%, 12/1/2013 | | 175,000 | 174,125 |
| Mobifon Holdings BV, 12.5%, 7/31/2010 | | 175,000 | 212,187 |
| Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010 | | 15,000 | 15,563 |
| Nortel Networks Corp., 6.875%, 9/1/2023 | | 90,000 | 84,150 |
| Nortel Networks Ltd., 6.125%, 2/15/2006 (e) | | 335,000 | 337,094 |
| | | | **1,160,444** |
| **Total Foreign Bonds — US$ Denominated** (Cost $19,379,488) | | | **20,186,547** |

## Foreign Bonds — Non US$ Denominated 17.7%

| | | Principal Amount ($)(c) | Value ($) |
|---|---|---|---|
| **Consumer Discretionary 0.1%** | | | |
| IESY Repository GMBH, 144A, 8.75%, 2/15/2015 | EUR | 50,000 | 56,574 |
| Victoria Acquisition III BV, 144A, 7.875%, 10/1/2014 | EUR | 50,000 | 55,062 |
| | | | **111,636** |
| **Financials 3.2%** | | | |
| KFW Bankengruppe, 5.0%, 7/4/2011 | EUR | 2,080,000 | **2,833,523** |
| **Industrials 0.1%** | | | |
| Grohe Holdings GmbH, 144A, 8.625%, 10/1/2014 | EUR | 100,000 | **112,241** |
| **Sovereign Bonds 14.3%** | | | |
| Federal Republic of Germany, Series 94, 6.25%, 1/4/2024 | EUR | 1,310,000 | 2,164,609 |
| Federative Republic of Brazil, 8.5%, 9/24/2012 | EUR | 130,000 | 175,333 |
| Government of Malaysia, 4.305%, 2/27/2009 | MYR | 1,380,000 | 375,023 |
| Mexican Bonds: | | | |
| Series M-20, 8.0%, 2/7/2023 | MXN | 2,230,000 | 176,370 |
| Series MI-10, 8.0%, 12/19/2013 | MXN | 1,292,000 | 110,779 |
| Series MI-10, 9.5%, 12/18/2014 | MXN | 400,500 | 37,452 |
| Series M-20, 10.0%, 12/5/2024 | MXN | 3,970,000 | 374,160 |
| Province of Ontario, 1.875%, 1/25/2010 | JPY | 140,000,000 | 1,351,622 |
| Republic of Argentina: | | | |
| 5.83%, 12/31/2033 | ARS | 1,364,377 | 487,370 |
| 7.82%, 12/31/2033 | EUR | 527,486 | 570,355 |
| Republic of Colombia, 12.0%, 10/22/2015 | COP | 442,000,000 | 198,333 |
| Republic of Greece, 4.65%, 4/19/2007 | EUR | 2,105,000 | 2,661,892 |
| Republic of Peru, 7.5%, 10/14/2014 | EUR | 130,000 | 176,984 |
| Republic of Turkey: | | | |
| 15.0%, 2/10/2010 | TRY | 740,000 | 596,783 |
| 20.0%, 10/17/2007 | TRY | 35 | 29 |
| Republic of Uruguay, 10.5%, 10/20/2006 | UYU | 4,200,000 | 205,751 |
| United Kingdom Treasury Bond, 4.75%, 9/7/2015 | GBP | 1,700,000 | 3,193,342 |
| | | | **12,856,187** |
| **Total Foreign Bonds — Non US$ Denominated** (Cost $14,676,524) | | | **15,913,587** |

## US Government Backed 13.5%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| US Treasury Bond: | | |
| 5.375%, 2/15/2031 (e) (g) | 540,000 | 637,200 |
| 6.0%, 2/15/2026 (e) | 1,375,000 | 1,694,150 |
| 7.5%, 11/15/2016 | 250,000 | 327,666 |
| 8.5%, 2/15/2020 (e) | 760,000 | 1,114,706 |
| 10.375%, 11/15/2012 (g) | 3,350,000 | 3,853,153 |
| 12.75%, 11/15/2010 (e) | 500,000 | 517,227 |
| US Treasury Note: | | |
| 4.75%, 11/15/2008 | 285,000 | 294,440 |
| 5.75%, 8/15/2010 (e)(g) | 3,000,000 | 3,278,790 |
| 6.125%, 8/15/2007 (e) | 375,000 | 393,838 |
| **Total US Government Backed** (Cost $11,769,004) | | **12,111,170** |

## US Government Sponsored Agencies 2.8%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Federal Home Loan Mortgage Corp., 5.125%, 7/15/2012 (e) (Cost $2,374,196) | 2,350,000 | **2,491,031** |

## Convertible Bond 0.2%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| DIMON, Inc., 6.25%, 3/31/2007 | 135,000 | 135,000 |
| HIH Capital Ltd., 144A, Series DOM, 7.5%, 9/25/2006 | 55,000 | 54,450 |
| **Total Convertible Bond** (Cost $183,708) | | **189,450** |

## Preferred Stocks 0.2%

| | Shares | Value ($) |
|---|---|---|
| Paxson Communications Corp., 14.25% (PIK) (e) | 19 | 124,404 |
| TNP Enterprises, Inc., 14.5%, "D" (PIK) | 86 | 97,395 |
| **Total Preferred Stocks** (Cost $271,090) | | **221,799** |

## Loan Participation 0.2%

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| Citigroup Global (Severstal), 8.625%, 2/24/2009 | 34,000 | 34,972 |
| Republic of Algeria, Floating Rate Debt Conversion Bond, LIBOR plus .8125, 4.003%**, 3/4/2010 | 105,000 | 104,213 |
| **Total Loan Participation** (Cost $135,120) | | **139,185** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Warrants 0.0%** | | |
| Dayton Superior Corp., 144A* | 10 | 0 |
| TravelCenters of America, Inc.* | 25 | 3 |
| **Total Warrants** (Cost $101) | | **3** |

| | Principal Amount ($)(c) | Value ($) |
|---|---|---|
| **Other Investments 0.1%** | | |
| Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $125,262) | 160,000 | **124,800** |

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 0.0%** | | |
| GEO Specialty Chemicals, Inc.* | 2,058 | 26,754 |
| Oxford Automotive, Inc.* | 37,399 | 10,472 |
| **Total Common Stocks** (Cost $19,831) | | **37,226** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 15.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (f) (Cost $13,710,167) | 13,710,167 | **13,710,167** |
| **Cash Equivalents 8.1%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $7,255,707) | 7,255,707 | **7,255,707** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $100,166,189) (a) | 113.9 | **102,518,000** |
| **Other Assets and Liabilities, Net** | (13.9) | **(12,552,817)** |
| **Net Assets** | 100.0 | **89,965,183** |

## Notes to Scudder Strategic Income Portfolio of Investments

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest. The following table represents bonds that are in default.*

| Security | Coupon | Maturity Date | Principal Amount | | Acquisition Cost ($) | Value ($) |
|---|---|---|---|---|---|---|
| Congoleum Corp. | 8.625 | 8/1/2008 | 80,000 | USD | 61,050 | 78,200 |
| GEO Specialty Chemicals, Inc. | 10.125 | 8/1/2008 | 93,000 | USD | 97,540 | 98,580 |
| Grupo Iusacell SA de CV | 10.0 | 7/15/2004 | 20,000 | USD | 13,175 | 15,200 |
| Intermet Corp. | 9.75 | 6/15/2009 | 15,000 | USD | 6,150 | 6,488 |
| Oxford Automotive, Inc. | 12.0 | 10/15/2010 | 167,321 | USD | 105,806 | 83,661 |
| | | | | | **283,721** | **282,129** |

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate. These securities are shown at their current rate as of June 30, 2005.*

(a) *The cost for federal income tax purposes was $100,264,769. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $2,253,231. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,464,381 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,211,150.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Principal amount stated in US dollars unless otherwise noted.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of securities loaned at June 30, 2005 amounted to $13,440,690, which is 14.9% of net assets.*

(f) *Represents collateral held in connection with securities lending.*

(g) *At June 30, 2005, these securities have been segregated, in whole or in part, to cover initial margin requirements for open futures contracts.*

*LIBOR: Represents the London InterBank Offered Rate*

*PIK: Denotes that all or a portion of income is paid in-kind.*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers.*

*The accompanying notes are an integral part of the financial statements.*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration Date | Contracts | Aggregate Face Value ($) | Value ($) | Unrealized Appreciation ($) |
|---|---|---|---|---|---|
| 10 Year Canada Bond | 9/21/2005 | 30 | 2,841,223 | 2,852,351 | 11,128 |
| UK Treasury Bond | 9/28/2005 | 28 | 5,669,648 | 5,727,637 | 57,989 |
| 10 Year Japanese Government Bond | 9/8/2005 | 9 | 11,383,512 | 11,457,940 | 74,428 |
| 10 Year US Treasury Note | 9/22/2005 | 5 | 565,291 | 567,344 | 2,053 |
| Total net unrealized appreciation | | | | | **145,598** |

*At June 30, 2005, open futures contracts sold short were as follows:*

| Futures | Expiration Date | Contracts | Aggregate Face Value ($) | Value ($) | Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| 10 Year Germany Bond | 9/8/2005 | 93 | (13,770,706) | (13,899,175) | (128,469) |
| Total net unrealized depreciation | | | | | **(128,469)** |

*At June 30, 2005, open credit rate default swap contracts sold were as follows:*

| Effective/ Expiration Date | Notional Amount ($) | Cash Flows Received by the Fund | Underlying Debt Obligation | Net Unrealized Depreciation ($) |
|---|---|---|---|---|
| 5/19/2005<br>6/20/2010 | 4,356,000 † | Fixed — 3.60% | Dow Jones CDX High Yield 100 | (129,800) |

† *Counterparty: JPMorgan Chase Bank*

**Currency Abbreviations**

| | | | |
|---|---|---|---|
| ARS | Argentine Peso | JPY | Japanese Yen |
| COP | Colombian Peso | MXN | Mexican Peso |
| EUR | Euro | MYR | Malaysian Ringgitt |
| GBP | British Pound | TRY | New Turkish Lira |
| | | UYU | Uraguary Peso |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $79,200,315) — including $13,440,690 of securities loaned | $ | 81,552,126 |
| Investment in Scudder Daily Assets Fund Institutional (cost $13,710,167)* | | 13,710,167 |
| Investment in Scudder Cash Management QP Trust (cost $7,255,707) | | 7,255,707 |
| Total investments in securities, at value (cost $100,166,189) | | 102,518,000 |
| Cash | | 251,817 |
| Foreign currency, at value (cost $30,296) | | 30,282 |
| Receivable for investments sold | | 202,798 |
| Interest receivable | | 1,685,159 |
| Receivable for Portfolio shares sold | | 5,087 |
| Foreign taxes recoverable | | 2,212 |
| Unrealized appreciation on forward foreign currency exchange contracts | | 538,162 |
| Open swap contract receivable | | 147,015 |
| Other assets | | 1,521 |
| Total assets | | 105,382,053 |
| **Liabilities** | | |
| Payable for investments purchased | | 736,778 |
| Payable upon return of securities loaned | | 13,710,167 |
| Payable for Portfolio shares redeemed | | 139,738 |
| Payable for daily variation margin on open futures contracts | | 22,743 |
| Net payable on closed forward foreign currency contracts | | 24,255 |
| Unrealized depreciation on forward foreign currency exchange contracts | | 544,354 |
| Unrealized depreciation on credit default swap contracts | | 129,800 |
| Accrued management fee | | 40,398 |
| Other accrued expenses and payables | | 68,637 |
| Total liabilities | | 15,416,870 |
| **Net assets, at value** | **$** | **89,965,183** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 2,640,582 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 2,351,811 |
| Credit default swaps | | (129,800) |
| Foreign currency related transactions | | (21,874) |
| Futures | | 17,129 |
| Accumulated net realized gain (loss) | | 318,427 |
| Paid-in capital | | 84,788,908 |
| **Net assets, at value** | **$** | **89,965,183** |
| **Class A Shares** | | |
| **Net asset value,** offering and redemption price per share ($66,378,687 ÷ 5,826,278 shares outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.39** |
| **Class B Shares** | | |
| **Net asset value,** offering and redemption price per share ($23,586,496 ÷ 2,078,210 shares outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.35** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends | $ | 16,510 |
| Interest | | 2,709,154 |
| Interest — Scudder Cash Management QP Trust | | 72,459 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 25,406 |
| Total Income | | 2,823,529 |
| Expenses: | | |
| Management fee | | 276,333 |
| Custodian fees | | 27,801 |
| Distribution service fees (Class B) | | 27,695 |
| Record keeping fees (Class B) | | 13,342 |
| Auditing | | 26,245 |
| Legal | | 7,781 |
| Trustees' fees and expenses | | 905 |
| Reports to shareholders | | 13,035 |
| Other | | 8,158 |
| Total expenses, before expense reductions | | 401,295 |
| Expense reductions | | (918) |
| Total expenses, after expense reductions | | 400,377 |
| **Net investment income (loss)** | | **2,423,152** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 825,615 |
| Credit default swaps | | (8,294) |
| Futures | | 247,871 |
| Foreign currency related transactions | | (343,145) |
| | | 722,047 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (2,356,297) |
| Credit default swaps | | (129,800) |
| Futures | | (40,910) |
| Foreign currency related transactions | | 579,768 |
| | | (1,947,239) |
| **Net gain (loss) on investment transactions** | | **(1,225,192)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **1,197,960** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 2,423,152 | $ 3,680,243 |
| Net realized gain (loss) on investment transactions | 722,047 | 2,282,802 |
| Net unrealized appreciation (depreciation) on investment transactions during the period | (1,947,239) | 390,098 |
| Net increase (decrease) in net assets resulting from operations | 1,197,960 | 6,353,143 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (5,064,114) | — |
| Class B | (1,726,009) | — |
| Net realized gains | | |
| Class A | (149,856) | (2,822,807) |
| Class B | (53,955) | (547,427) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 8,196,357 | 13,206,141 |
| Reinvestment of distributions | 5,213,970 | 2,822,807 |
| Cost of shares redeemed | (4,834,299) | (17,995,166) |
| Net increase (decrease) in net assets from Class A share transactions | 8,576,028 | (1,966,218) |
| **Class B** | | |
| Proceeds from shares sold | 2,915,997 | 13,821,690 |
| Reinvestment of distributions | 1,779,964 | 547,427 |
| Cost of shares redeemed | (1,018,519) | (2,371,956) |
| Net increase (decrease) in net assets from Class B share transactions | 3,677,442 | 11,997,161 |
| **Increase (decrease) in net assets** | 6,457,496 | 13,013,852 |
| Net assets at beginning of period | 83,507,687 | 70,493,835 |
| Net assets at end of period (including undistributed net investment income of $2,640,582 and $7,007,553, respectively) | **$ 89,965,183** | **$ 83,507,687** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 5,069,464 | 5,264,429 |
| Shares sold | 697,393 | 1,130,086 |
| Shares issued to shareholders in reinvestment of distributions | 468,041 | 247,832 |
| Shares redeemed | (408,620) | (1,572,883) |
| Net increase (decrease) in Portfolio shares | 756,814 | (194,965) |
| Shares outstanding at end of period | **5,826,278** | **5,069,464** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,758,421 | 701,718 |
| Shares sold | 246,407 | 1,213,237 |
| Shares issued to shareholders in reinvestment of distributions | 160,213 | 48,231 |
| Shares redeemed | (86,831) | (204,765) |
| Net increase (decrease) in Portfolio shares | 319,789 | 1,056,703 |
| Shares outstanding at end of period | **2,078,210** | **1,758,421** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.25** | **$ 11.82** | **$ 11.10** | **$ 10.27** | **$ 9.86** | **$ 9.86** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income[d] | .34 | .58 | .41 | .45 | .48 | .51 |
| Net realized and unrealized gain (loss) on investment transactions | (.19) | .39 | .47 | .68 | .03 | (.26) |
| **Total from investment operations** | .15 | .97 | .88 | 1.13 | .51 | .25 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.98) | — | (.15) | (.30) | (.10) | (.25) |
| Net realized gains on investment transactions | (.03) | (.54) | (.01) | — | — | — |
| **Total distributions** | (1.01) | (.54) | (.16) | (.30) | (.10) | (.25) |
| **Net asset value, end of period** | **$ 11.39** | **$ 12.25** | **$ 11.82** | **$ 11.10** | **$ 10.27** | **$ 9.86** |
| Total Return (%) | 1.40** | 8.60 | 7.85 | 11.30 | 5.23 | 2.57 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 66 | 62 | 62 | 60 | 21 | 9 |
| Ratio of expenses before expense reductions (%) | .84* | .84 | .83 | .73 | .66 | 1.14 |
| Ratio of expenses after expense reductions (%) | .84* | .84 | .83 | .73 | .65 | 1.10 |
| Ratio of net investment income (%) | 5.79* | 4.99 | 3.60 | 4.26 | 4.76 | 5.26 |
| Portfolio turnover rate (%) | 196* | 210 | 160 | 65 | 27 | 154 |

a For the six months ended June 30, 2005 (Unaudited).

b As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 are included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by $.04, increase net realized and unrealized gains and losses per share by $.04 and decrease the ratio of net investment income to average net assets from 5.16% to 4.76%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.

c On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

d Based on average shares outstanding during the period.

* Annualized  ** Not annualized

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003[b] |
|---|---|---|---|
| **Selected Per Share Data** | | | |
| **Net asset value, beginning of period** | **$ 12.17** | **$ 11.78** | **$ 11.44** |
| *Income (loss) from investment operations:* | | | |
| Net investment income[c] | .32 | .53 | .17 |
| Net realized and unrealized gain (loss) on investment transactions | (.18) | .40 | .17 |
| **Total from investment operations** | .14 | .93 | .34 |
| *Less distributions from:* | | | |
| Net investment income | (.93) | — | — |
| Net realized gains on investment transactions | (.03) | (.54) | — |
| **Total distributions** | (.96) | (.54) | — |
| **Net asset value, end of period** | **$ 11.35** | **$ 12.17** | **$ 11.78** |
| Total Return (%) | 1.21** | 8.27 | 2.97** |
| **Ratios to Average Net Assets and Supplemental Data** | | | |
| Net assets, end of period ($ millions) | 24 | 21 | 8 |
| Ratio of expenses (%) | 1.21* | 1.22 | 1.26* |
| Ratio of net investment income (%) | 5.42* | 4.61 | 1.80* |
| Portfolio turnover rate (%) | 196* | 210 | 160 |

a For the six months ended June 30, 2005 (Unaudited).

b For the period from May 1, 2003 (commencement of operations of Class B shares) to December 31, 2003.

c Based on average shares outstanding during the period.

* Annualized  ** Not annualized

## Scudder Technology Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 937.00 | $ 935.10 |
| Expenses Paid per $1,000* | $ 4.08 | $ 5.90 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.58 | $ 1,018.70 |
| Expenses Paid per $1,000* | $ 4.26 | $ 6.16 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Technology Growth Portfolio | .85% | 1.23% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Technology Growth Portfolio

Technology was one of the most challenging sectors in the first half of 2005, due largely to investor concerns that a slowing global economy would crimp the industry's sales growth. In this difficult environment, the portfolio returned –6.30% for the six-month period (Class A shares, unadjusted for contract charges) exceeding the –7.33% return of the Goldman Sachs Technology Index. The Russell 1000 Growth Index returned –1.72% for the six-month period ended June 30, 2005.

We generated the best relative returns in the communications equipment subsector, where positions in Corning Inc. and Motorola Inc. contributed to performance, and in the Internet group, where an underweight in eBay Inc. — which underperformed — benefited returns. The semiconductor sector was also a source of outperformance, as our positions in National Semiconductor Corp. and Broadcom Corp. added value. On the negative side, the portfolio's holdings in software underperformed due largely to weakness in TIBCO Software, Inc.

In terms of portfolio activity, we boosted our weighting in computers and peripherals — largely by adding to International Business Machines Corp. on weakness — and reduced our weighting in software. The portfolio is now slightly overweight in semiconductors, reflecting our belief that the sector is poised for outperformance in the second half. Overall, our sector weightings are more closely in line with the benchmark than they were at the beginning of the period.

Looking ahead, we are cautiously optimistic that tech can recover from its first-half underperformance, due to the growing financial health of technology companies, the increasing number of reasonably valued tech stocks and the sector's traditional second-half strength.

| | |
|---|---|
| Ian Link, CFA | Kelly P. Davis |
| Lead Manager | Brian S. Peters, CFA |
| | Portfolio Managers |

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Investments by the portfolio in small companies present greater risk of loss than investments in larger, more established companies. Concentration of the portfolio's investment in technology stocks may present a greater risk than investments in a more diversified portfolio. Investments by the portfolio in emerging technology companies present greater risk than investments in more established technology companies. This portfolio is non-diversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding this product's investments and risk profile.

*The Goldman Sachs Technology Index is an unmanaged, capitalization-weighted index based on a universe of technology-related stocks.*

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values.*

*Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Technology Growth Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 98% | 91% |
| Cash Equivalents | 2% | 9% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Information Technology | 96% | 96% |
| Consumer Discretionary | 3% | 3% |
| Telecommunication Services | 1% | — |
| Health Care | — | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 109. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Technology Growth Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 94.4%** | | |
| **Consumer Discretionary 2.5%** | | |
| **Internet & Catalog Retail** | | |
| eBay, Inc.* | 152,500 | **5,034,025** |
| **Information Technology 90.3%** | | |
| **Communications Equipment 15.4%** | | |
| Avocent Corp.* (d) | 148,900 | 3,892,246 |
| Cisco Systems, Inc.* | 340,600 | 6,508,866 |
| Corning, Inc.* | 223,300 | 3,711,246 |
| Juniper Networks, Inc.* (d) | 66,300 | 1,669,434 |
| Motorola, Inc. | 434,084 | 7,926,374 |
| Nokia Oyj (ADR) (d) | 119,100 | 1,981,824 |
| QUALCOMM, Inc. | 123,416 | 4,073,962 |
| Scientific-Atlanta, Inc. | 56,600 | 1,883,082 |
| | | **31,647,034** |
| **Computers & Peripherals 19.2%** | | |
| ATI Technologies, Inc.* (d) | 181,600 | 2,151,960 |
| Dell, Inc.* | 111,975 | 4,424,132 |
| EMC Corp.* | 699,900 | 9,595,629 |
| Hewlett-Packard Co. | 220,900 | 5,193,359 |
| International Business Machines Corp. | 81,500 | 6,047,300 |
| Lexmark International, Inc. "A"* | 57,825 | 3,748,795 |
| Network Appliance, Inc.* | 110,400 | 3,121,008 |
| QLogic Corp.* (d) | 64,400 | 1,988,028 |
| Sun Microsystems, Inc.* | 881,500 | 3,287,995 |
| | | **39,558,206** |
| **Electronic Equipment & Instruments 3.0%** | | |
| AU Optronics Corp. (ADR)* (d) | 99,000 | 1,677,060 |
| Celestica, Inc.* (d) | 164,100 | 2,198,940 |
| Solectron Corp.* | 594,200 | 2,252,018 |
| | | **6,128,018** |
| **Internet Software & Services 6.1%** | | |
| Check Point Software Technologies Ltd.* | 154,400 | 3,057,120 |
| Google, Inc. "A"* | 13,700 | 4,029,855 |
| VeriSign, Inc.* (d) | 57,600 | 1,656,576 |
| Yahoo!, Inc.* | 113,100 | 3,918,915 |
| | | **12,662,466** |
| **IT Consulting & Services 8.4%** | | |
| Accenture Ltd. "A"* (d) | 168,500 | 3,819,895 |
| Affiliated Computer Services, Inc. "A"* (d) | 110,300 | 5,636,330 |
| BearingPoint, Inc.* (d) | 304,300 | 2,230,519 |
| Cognizant Technology Solutions Corp. "A"* | 44,200 | 2,083,146 |
| Paychex, Inc. | 112,408 | 3,657,756 |
| | | **17,427,646** |
| **Semiconductors & Semiconductor Equipment 19.0%** | | |
| Advanced Micro Devices, Inc.* (d) | 249,900 | 4,333,266 |
| Applied Materials, Inc. | 299,400 | 4,844,292 |
| Broadcom Corp. "A"* | 120,458 | 4,277,464 |
| Integrated Circuit Systems, Inc.* (d) | 48,200 | 994,848 |
| Intel Corp. | 202,489 | 5,276,863 |
| Maxim Integrated Products, Inc. | 61,434 | 2,347,393 |
| Microchip Technology, Inc. (d) | 11,800 | 349,516 |
| National Semiconductor Corp. (d) | 154,500 | 3,403,635 |
| Powertech Technology, Inc.* | 497,000 | 1,554,225 |
| Samsung Electronics Co., Ltd. | 4,290 | 2,032,570 |
| Texas Instruments, Inc. | 164,000 | 4,603,480 |
| Xilinx, Inc. | 199,800 | 5,094,900 |
| | | **39,112,452** |
| **Software 19.2%** | | |
| Infosys Technologies Ltd. (ADR) (d) | 31,400 | 2,432,558 |
| Mercury Interactive Corp.* (d) | 31,800 | 1,219,848 |
| Microsoft Corp. | 427,146 | 10,610,307 |
| Oracle Corp.* | 993,700 | 13,116,840 |
| Symantec Corp.* | 263,300 | 5,724,142 |
| TIBCO Software, Inc.* | 529,700 | 3,464,238 |
| TomTom NV* | 19,100 | 419,286 |
| VERITAS Software Corp.* | 106,456 | 2,597,526 |
| | | **39,584,745** |
| **Materials 0.1%** | | |
| **Metals & Mining** | | |
| SODIFF Advanced Materials Co., Ltd. | 13,960 | **270,191** |
| **Telecommunication Services 1.5%** | | |
| **Diversified Telecommunication Services** | | |
| Inmarsat PLC* | 68,900 | 417,255 |
| NeuStar, Inc. "A"* | 16,900 | 432,640 |
| Syniverse Holdings, Inc.* (d) | 153,600 | 2,150,400 |
| | | **3,000,295** |
| **Total Common Stocks** (Cost $174,245,404) | | **194,425,078** |
| **Call Options Purchased 0.0%** | | |
| International Business Machines Corp., Expiring 7/16/2005, Strike Price, $80.0 (Cost $18,726) | 132 | **1,320** |
| **Securities Lending Collateral 10.3%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $21,253,321) | 21,253,321 | **21,253,321** |
| **Cash Equivalents 2.2%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $4,615,397) | 4,615,397 | **4,615,397** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $200,132,848) (a) | 106.9 | **220,295,116** |
| **Other Assets and Liabilities** | (6.9) | **(14,224,097)** |
| **Net Assets** | 100.0 | **206,071,019** |

*The accompanying notes are an integral part of the financial statements.*

## Notes to Scudder Technology Growth Portfolio

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $209,182,438. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $11,112,678. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $19,588,248 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,475,570.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the seven-day yield at period end.*

(d) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $20,673,000, which is 10.0% of net assets.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*At June 30, 2005, open written options were as follows:*

| Written Options | Contracts | Expiration Date | Strike Price | Value ($) |
|---|---|---|---|---|
| **Call Options** | | | | |
| Broadcom Corp. | 409 | 7/16/2005 | 35.0 | (51,125) |
| Corning, Inc. | 1,459 | 7/16/2005 | 15.0 | (248,030) |
| EMC Corp. | 785 | 7/16/2005 | 14.0 | (11,775) |
| Mercury Interactive Corp. | 128 | 7/16/2005 | 47.5 | (640) |
| Microchip Technology, Inc. | 118 | 7/16/2005 | 30.0 | (7,080) |
| **Total outstanding written options (Premiums received ($255,194))** | | | | **(318,650)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $174,264,130) — including $20,673,000 of securities loaned | $ | 194,426,398 |
| Investment in Scudder Daily Assets Fund Institutional (cost $21,253,321)* | | 21,253,321 |
| Investment in Scudder Cash Management QP Trust (cost $4,615,397) | | 4,615,397 |
| Total investments in securities, at value (cost $200,132,848) | | 220,295,116 |
| Cash | | 4,299 |
| Foreign currency, at value (cost $4,825,128) | | 4,749,174 |
| Receivable for investments sold | | 6,847,960 |
| Dividends receivable | | 22,185 |
| Interest receivable | | 25,469 |
| Receivable for Portfolio shares sold | | 21,713 |
| Foreign taxes recoverable | | 274 |
| Other assets | | 3,443 |
| Total assets | | 231,969,633 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 3,904,164 |
| Payable for Portfolio shares redeemed | | 232,746 |
| Payable upon return of securities loaned | | 21,253,321 |
| Written options, at value (premiums received $255,194) | | 318,650 |
| Accrued management fee | | 128,453 |
| Other accrued expenses and payables | | 61,280 |
| Total liabilities | | 25,898,614 |
| **Net assets, at value** | **$** | **206,071,019** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated distributions in excess of net investment income | $ | (476,740) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 20,162,268 |
| Written options | | (63,456) |
| Foreign currency related transactions | | (69,153) |
| Accumulated net realized gain (loss) | | (281,793,784) |
| Paid-in capital | | 468,311,884 |
| **Net assets, at value** | **$** | **206,071,019** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($191,609,963 ÷ 22,806,154 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **8.40** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($14,461,056 ÷ 1,733,862 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **8.34** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $1,918) | $ | 394,345 |
| Interest | | 592 |
| Interest — Scudder Cash Management QP Trust | | 110,206 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 9,691 |
| Total Income | | 514,834 |
| Expenses: | | |
| Management fee | | 806,800 |
| Custodian and accounting fees | | 55,193 |
| Distribution service fees (Class B) | | 18,303 |
| Record keeping fees (Class B) | | 9,328 |
| Auditing | | 21,621 |
| Legal | | 9,019 |
| Trustees' fees and expenses | | 2,699 |
| Reports to shareholders | | 13,832 |
| Other | | 9,165 |
| Total expenses, before expense reductions | | 945,960 |
| Expense reductions | | (1,086) |
| Total expenses, after expense reductions | | 944,874 |
| **Net investment income (loss)** | | **(430,040)** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 1,264,440 |
| Written options | | 1,742,079 |
| Foreign currency related transactions | | 4,408 |
| | | 3,010,927 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (17,767,359) |
| Written options | | (189,882) |
| Foreign currency related transactions | | (76,867) |
| | | (18,034,108) |
| **Net gain (loss) on investment transactions** | | **(15,023,181)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(15,453,221)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (430,040) | $ 1,003,070 |
| Net realized gain (loss) | 3,010,927 | 14,690,748 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (18,034,108) | (12,924,302) |
| Net increase (decrease) in net assets resulting from operations | (15,453,221) | 2,769,516 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (979,061) | — |
| Class B | (18,255) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 8,890,885 | 32,575,554 |
| Reinvestment of distributions | 979,061 | — |
| Cost of shares redeemed | (32,947,232) | (61,621,741) |
| Net increase (decrease) in net assets from Class A share transactions | (23,077,286) | (29,046,187) |
| **Class B** | | |
| Proceeds from shares sold | 1,010,297 | 7,002,084 |
| Reinvestment of distributions | 18,255 | — |
| Cost of shares redeemed | (1,863,250) | (1,720,967) |
| Net increase (decrease) in net assets from Class B share transactions | (834,698) | 5,281,117 |
| **Increase (decrease) in net assets** | (40,362,521) | (20,995,554) |
| Net assets at beginning of period | 246,433,540 | 267,429,094 |
| Net assets at end of period (including accumulated distributions in excess of net investment income and undistributed net investment income of $476,740 and $950,616, respectively) | **$ 206,071,019** | **$ 246,433,540** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 25,536,462 | 29,035,542 |
| Shares sold | 1,043,921 | 3,753,123 |
| Shares issued to shareholders in reinvestment of distributions | 119,107 | — |
| Shares redeemed | (3,893,336) | (7,252,203) |
| Net increase (decrease) in Portfolio shares | (2,730,308) | (3,499,080) |
| Shares outstanding at end of period | **22,806,154** | **25,536,462** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,832,122 | 1,217,540 |
| Shares sold | 121,925 | 821,254 |
| Shares issued to shareholders in reinvestment of distributions | 2,234 | — |
| Shares redeemed | (222,419) | (206,672) |
| Net increase (decrease) in Portfolio shares | (98,260) | 614,582 |
| Shares outstanding at end of period | **1,733,862** | **1,832,122** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.01** | **$ 8.84** | **$ 6.02** | **$ 9.36** | **$ 13.87** | **$ 17.77** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | (.02) | .04 | (.04) | (.03) | .01 | .04 |
| Net realized and unrealized gain (loss) on investment transactions | (.55) | .13 | 2.86 | (3.30) | (4.50) | (3.84) |
| **Total from investment operations** | (.57) | .17 | 2.82 | (3.33) | (4.49) | (3.80) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.04) | — | — | (.01) | (.02) | — |
| Net realized gains on investment transactions | — | — | — | — | — | (.10) |
| **Total distributions** | (.04) | — | — | (.01) | (.02) | (.10) |
| **Net asset value, end of period** | **$ 8.40** | **$ 9.01** | **$ 8.84** | **$ 6.02** | **$ 9.36** | **$ 13.87** |
| Total Return (%) | (6.30)** | 1.92 | 46.84 | (35.52) | (32.39) | (21.57) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 192 | 230 | 257 | 219 | 351 | 270 |
| Ratio of expenses (%) | .85* | .83 | .86 | .80 | .81 | .82 |
| Ratio of net investment income (loss) (%) | (.37)* | .43 | (.50) | (.37) | .12 | .21 |
| Portfolio turnover rate (%) | 124* | 112 | 66 | 64 | 56 | 107 |

a For the six months ended June 30, 2005 (Unaudited).

b On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

c Based on average shares outstanding during the period.

* Annualized ** Not annualized

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 8.93** | **$ 8.80** | **$ 6.01** | **$ 6.32** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.03) | .01 | (.07) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | (.55) | .12 | 2.86 | (.29) |
| **Total from investment operations** | (.58) | .13 | 2.79 | (.31) |
| *Less distributions from:* | | | | |
| Net investment income | (.01) | — | — | — |
| **Net asset value, end of period** | **$ 8.34** | **$ 8.93** | **$ 8.80** | **$ 6.01** |
| Total Return (%) | (6.49)** | 1.48 | 46.42 | (4.75)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 14 | 16 | 11 | .3 |
| Ratio of expenses before expense reductions (%) | 1.23* | 1.22 | 1.25 | 1.06* |
| Ratio of expenses after expense reductions (%) | 1.23* | 1.21 | 1.25 | 1.06* |
| Ratio of net investment income (loss) (%) | (.75)* | .05 | (.89) | (.79)* |
| Portfolio turnover rate (%) | 124* | 112 | 66 | 64 |

a For the six months ended June 30, 2005 (Unaudited).

b For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

c Based on average shares outstanding during the period.

* Annualized ** Not annualized

## Scudder Total Return Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,007.70 | $ 1,005.60 |
| Expenses Paid per $1,000* | $ 2.79 | $ 4.67 |
| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,022.02 | $ 1,020.13 |
| Expenses Paid per $1,000* | $ 2.81 | $ 4.71 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — Scudder Total Return Portfolio | .56% | .94% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## Scudder Total Return Portfolio

During the first six months of 2005, the US stock market exhibited considerable volatility as investors reacted to economic news that was somewhat contradictory. At June 30, 2005, the S&P 500 Index was close to its level at the beginning of the year; the total return of the index for the six-month period was –0.81%. Large-cap stocks performed better than small-cap stocks, and value stocks outperformed growth.

Bonds delivered higher returns than stocks for the period: Return of the Lehman Brothers Aggregate Bond Index was 2.51%. High-yield bonds underperformed investment-grade issues in the early months of 2005, as concerns about the durability of economic growth drove a flight to quality. After a turbulent period in March and early April, the high-yield and emerging market debt sectors rebounded in the quarter.

For the six-month period ended June 30, 2005, the return of Scudder Total Return Portfolio (Class A shares, unadjusted for contract charges) was 0.77%. As expected, since this portfolio invests in a blend of equity and bond securities, its return was between the returns of our major equity and bond benchmarks, the S&P 500 and the Lehman Brothers Aggregate Bond Index. Our other equity benchmark, the Russell 1000 Growth Index, had a return of –1.72%. The Lipper peer group of balanced funds had an average return of 0.51% for the period.

Over the last six months, the portfolio's equity/fixed-income mix was maintained at close to a neutral position of 60% stocks and 40% bonds, but with a modest overweight in equities. This overweight in equities detracted from performance, since bond returns were higher than equity returns. In the equity portion of the portfolio, stock selection, particularly in the energy and health care sectors, was the major contributor to the portfolio's performance. The lack of utility holdings was negative for performance, as this sector had the second highest return (after energy) in the S&P 500 Index. In the bond portion of the portfolio, individual security selection had the largest positive impact on performance. Exposure to the high-yield and emerging market debt sectors added value. Non-dollar bond holdings added value as well since foreign markets performed better than the US market.

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Portfolio Managers

Deutsche Investment Management Americas Inc.

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Standard & Poor's (S&P) 500 Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Lehman Brothers Aggregate Bond Index is an unmanaged market value-weighted measure of treasury issues, agency issues, corporate bond issues and mortgage securities.*

*The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index which consists of those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.*

*Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*The Lipper Balanced Fund category includes funds whose primary objective is to conserve principal by maintaining at all times a balanced portfolio of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## Scudder Total Return Portfolio

| Asset Allocation (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 58% | 60% |
| Corporate Bonds | 11% | 11% |
| Cash Equivalents | 6% | 3% |
| Collateralized Mortgage Obligations | 5% | 7% |
| Foreign Bonds — US$ Denominated | 4% | 5% |
| Commercial and Non-Agency Mortgage Backed Securities | 4% | 2% |
| US Government Backed | 3% | 4% |
| Foreign Bonds — Non US$ Denominated | 3% | 1% |
| Municipal Bonds and Notes | 2% | 2% |
| US Government Agency Sponsored Pass-Throughs | 2% | 1% |
| Asset Backed | 2% | 3% |
| Government National Mortgage Association | — | 1% |
| | 100% | 100% |

| Sector Diversification (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 19% | 19% |
| Information Technology | 16% | 19% |
| Health Care | 12% | 16% |
| Consumer Discretionary | 11% | 12% |
| Industrials | 11% | 11% |
| Energy | 10% | 9% |
| Consumer Staples | 5% | 8% |
| Sovereign Bonds | 5% | — |
| Materials | 5% | 4% |
| Telecommunication Services | 3% | 1% |
| Utilities | 3% | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 117. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## Scudder Total Return Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 58.0%** | | |
| **Consumer Discretionary 6.5%** | | |
| **Auto Components 0.1%** | | |
| Noble International Ltd. | 4,000 | 94,200 |
| Oxford Automotive, Inc.* | 73,172 | 20,488 |
| Tenneco Automotive, Inc.* | 19,200 | 319,488 |
| | | **434,176** |
| **Automobiles 0.3%** | | |
| Harley-Davidson, Inc. | 47,600 | **2,360,960** |
| **Distributors 0.0%** | | |
| The Andersons, Inc. | 3,200 | **114,592** |
| **Diversified Consumer Services 0.0%** | | |
| Sotheby's Holdings, Inc., "A"* | 7,300 | **100,010** |
| **Hotels Restaurants & Leisure 0.9%** | | |
| Argosy Gaming Co.* | 9,300 | 433,473 |
| California Pizza Kitchen, Inc.* | 3,600 | 98,172 |
| CEC Entertainment, Inc.* | 3,500 | 147,315 |
| CKE Restaurants, Inc. | 19,200 | 267,264 |
| Dave & Buster's, Inc.* | 3,300 | 60,852 |
| International Game Technology | 40,200 | 1,131,630 |
| MTR Gaming Group, Inc.* | 29,200 | 339,888 |
| Multimedia Games, Inc.* | 23,400 | 257,634 |
| Panera Bread Co., "A"* | 5,300 | 329,051 |
| Starbucks Corp.* | 17,700 | 914,382 |
| YUM! Brands, Inc. | 43,900 | 2,286,312 |
| | | **6,265,973** |
| **Household Durables 0.1%** | | |
| Fortune Brands, Inc. | 11,100 | **985,680** |
| **Internet & Catalog Retail 0.2%** | | |
| eBay, Inc.* | 43,200 | **1,426,032** |
| **Leisure Equipment & Products 0.1%** | | |
| Arctic Cat, Inc. | 7,200 | 147,816 |
| Escalade, Inc. | 1,300 | 17,979 |
| JAKKS Pacific, Inc.* | 14,300 | 274,703 |
| | | **440,498** |
| **Media 1.1%** | | |
| aQuantive, Inc.* | 7,400 | 131,128 |
| Comcast Corp., Special "A"* | 50,000 | 1,497,500 |
| McGraw-Hill Companies, Inc. | 53,800 | 2,380,650 |
| Omnicom Group, Inc. | 29,600 | 2,363,856 |
| Reader's Digest Association, Inc. | 30,100 | 496,650 |
| Scholastic Corp.* | 10,100 | 389,355 |
| Viacom, Inc., "B" | 25,309 | 810,394 |
| | | **8,069,533** |
| **Multiline Retail 1.2%** | | |
| Family Dollar Stores, Inc. | 107,500 | 2,805,750 |
| Kirkland's, Inc.* | 17,700 | 165,318 |
| Kohl's Corp.* | 26,300 | 1,470,433 |
| Target Corp. | 75,100 | 4,086,191 |
| | | **8,527,692** |
| **Specialty Retail 2.3%** | | |
| Bed Bath & Beyond, Inc.* | 22,300 | 931,694 |
| Cato Corp., "A" | 16,350 | 337,627 |
| GameStop Corp., "B"* | 2,600 | 77,740 |
| Genesco, Inc.* | 8,700 | 322,683 |
| Hibbett Sporting Goods, Inc.* | 9,300 | 351,912 |
| Home Depot, Inc. | 12,600 | 490,140 |
| Jo-Ann Stores, Inc.* | 1,400 | 36,946 |
| Jos. A. Bank Clothiers, Inc.* | 8,100 | 350,730 |
| Lowe's Companies, Inc. | 70,300 | 4,092,866 |
| Payless ShoeSource, Inc.* | 12,800 | 245,760 |
| Pier 1 Imports, Inc. | 25,900 | 367,521 |
| RadioShack Corp. | 81,300 | 1,883,721 |
| Stage Stores, Inc.* | 10,700 | 466,520 |
| Staples, Inc. | 81,600 | 1,739,712 |
| Stein Mart, Inc. | 12,900 | 283,800 |
| The Buckle, Inc. | 6,300 | 279,342 |
| The Finish Line, Inc., "A" | 6,300 | 119,196 |
| The Gap, Inc. | 134,500 | 2,656,375 |
| TJX Companies, Inc. | 58,300 | 1,419,605 |
| Too, Inc.* | 7,400 | 172,938 |
| | | **16,626,828** |
| **Textiles, Apparel & Luxury Goods 0.2%** | | |
| Guess?, Inc.* | 9,300 | 319,994 |
| K-Swiss, Inc., "A" | 12,400 | 401,016 |
| Wolverine World Wide, Inc. | 18,600 | 446,586 |
| | | **1,167,596** |
| **Consumer Staples 3.9%** | | |
| **Beverages 0.6%** | | |
| PepsiCo, Inc. | 79,580 | **4,291,749** |
| **Food & Staples Retailing 0.7%** | | |
| Pantry, Inc.* | 1,300 | 50,349 |
| Pathmark Stores, Inc.* | 26,900 | 235,644 |
| Wal-Mart Stores, Inc. | 44,700 | 2,154,540 |
| Walgreen Co. | 54,500 | 2,506,455 |
| | | **4,946,988** |
| **Food Products 1.3%** | | |
| Dean Foods Co.* | 18,500 | 651,940 |
| Flowers Foods, Inc. | 5,300 | 187,408 |
| General Mills, Inc. | 66,500 | 3,111,535 |
| Kellogg Co. | 31,900 | 1,417,636 |
| Lance, Inc. | 23,600 | 406,156 |
| The Hershey Co. | 23,900 | 1,484,190 |
| TreeHouse Foods, Inc.* | 3,700 | 105,487 |
| Unilever NV, (NY Shares) | 33,900 | 2,197,737 |
| | | **9,562,089** |
| **Household Products 1.2%** | | |
| Colgate-Palmolive Co. | 28,100 | 1,402,471 |
| Kimberly-Clark Corp. | 55,200 | 3,454,968 |
| Procter & Gamble Co. | 72,600 | 3,829,650 |
| | | **8,687,089** |
| **Personal Products 0.1%** | | |
| Chattem, Inc.* | 9,000 | **372,600** |
| **Energy 7.2%** | | |
| **Energy Equipment & Services 1.6%** | | |
| Baker Hughes, Inc. | 49,500 | 2,532,420 |
| Halliburton Co. | 73,300 | 3,505,206 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Nabors Industries Ltd.* | 27,300 | 1,654,926 |
| Schlumberger Ltd. | 26,900 | 2,042,786 |
| Transocean, Inc.* | 35,300 | 1,905,141 |
| | | **11,640,479** |
| **Oil, Gas & Consumable Fuels 5.6%** | | |
| BP PLC (ADR) | 59,600 | 3,717,848 |
| Callon Petroleum Co.* | 19,200 | 283,776 |
| ChevronTexaco Corp. | 111,400 | 6,229,488 |
| Cimarex Energy Co.* | 14,200 | 552,522 |
| ConocoPhillips | 63,800 | 3,667,862 |
| Devon Energy Corp. | 61,400 | 3,111,752 |
| Energy Partners Ltd.* | 19,000 | 497,990 |
| EOG Resources, Inc. | 81,900 | 4,651,920 |
| ExxonMobil Corp. | 155,100 | 8,913,597 |
| Forest Oil Corp.* | 9,100 | 382,200 |
| Harvest Natural Resources, Inc.* | 18,900 | 206,577 |
| KCS Energy, Inc.* | 12,200 | 211,914 |
| Meridian Resource Corp.* | 28,900 | 138,142 |
| Penn Virginia Corp. | 10,400 | 464,568 |
| Royal Dutch Petroleum Co., (NY Shares) | 50,100 | 3,251,490 |
| St. Mary Land & Exploration Co. | 5,000 | 144,900 |
| Stone Energy Corp.* | 5,300 | 259,170 |
| Valero Energy Corp. | 19,900 | 1,574,289 |
| Vintage Petroleum, Inc. | 14,100 | 429,627 |
| XTO Energy, Inc. | 38,966 | 1,324,454 |
| | | **40,014,086** |
| **Financials 10.2%** | | |
| **Banks 4.4%** | | |
| AmSouth Bancorp. | 75,700 | 1,968,200 |
| BancFirst Corp. | 1,200 | 104,388 |
| BancorpSouth, Inc. | 1,500 | 35,400 |
| Bank of America Corp. | 163,100 | 7,438,991 |
| BB&T Corp. | 50,100 | 2,002,497 |
| Brookline Bancorp, Inc. | 6,700 | 108,942 |
| Cathay General Bancorp. | 2,900 | 97,759 |
| Center Financial Corp. | 15,900 | 394,797 |
| City Holding Co. | 3,700 | 135,124 |
| CoBiz, Inc. | 1,200 | 21,756 |
| Corus Bankshares, Inc. | 10,000 | 554,900 |
| CVB Financial Corp. | 10,775 | 212,052 |
| Fidelity Bancshares, Inc. | 5,750 | 152,490 |
| First BanCorp. | 13,500 | 542,025 |
| First Charter Corp. | 3,800 | 83,486 |
| First Community Bancorp. | 2,100 | 99,750 |
| FirstFed Financial Corp.* | 9,400 | 560,334 |
| Frontier Financial Corp. | 1,350 | 34,101 |
| Harbor Florida Bancshares, Inc. | 10,100 | 378,144 |
| NewAlliance Bancshares, Inc. | 8,800 | 123,640 |
| Oriental Financial Group, Inc. | 13,200 | 201,432 |
| Pacific Capital Bancorp. | 1,800 | 66,744 |
| PFF Bancorp., Inc. | 5,350 | 162,051 |
| PNC Financial Services Group | 38,000 | 2,069,480 |
| Prosperity Bancshares, Inc. | 15,000 | 429,150 |
| Provident Financial Services, Inc. | 14,000 | 245,980 |
| Republic Bancorp., Inc. | 17,800 | 266,644 |
| Republic Bancorp., Inc., "A" | 1,260 | 27,355 |
| Sterling Bancshares, Inc. | 21,400 | 332,984 |

| | Shares | Value ($) |
|---|---|---|
| Sterling Financial Corp.* | 1,500 | 56,100 |
| SunTrust Banks, Inc. | 30,600 | 2,210,544 |
| TierOne Corp. | 4,300 | 116,659 |
| UMB Financial Corp. | 1,900 | 108,357 |
| Umpqua Holdings Corp. | 1,400 | 32,956 |
| United Community Banks, Inc. | 1,700 | 44,234 |
| US Bancorp. | 105,800 | 3,089,360 |
| Wachovia Corp. | 62,600 | 3,104,960 |
| Wells Fargo & Co. | 54,900 | 3,380,742 |
| Wintrust Financial Corp. | 3,000 | 157,050 |
| WSFS Financial Corp. | 3,800 | 207,898 |
| | | **31,359,456** |
| **Capital Markets 1.2%** | | |
| Bear Stearns Companies, Inc. | 19,800 | 2,058,012 |
| Investment Technology Group, Inc.* | 19,900 | 418,298 |
| Lehman Brothers Holdings, Inc. | 18,500 | 1,836,680 |
| Merrill Lynch & Co., Inc. | 52,300 | 2,877,023 |
| The Goldman Sachs Group, Inc. | 17,100 | 1,744,542 |
| | | **8,934,555** |
| **Consumer Finance 0.3%** | | |
| American Express Co. | 33,500 | 1,783,205 |
| Cash America International, Inc. | 3,500 | 70,420 |
| CompuCredit Corp.* | 3,500 | 119,980 |
| Metris Companies, Inc.* | 13,000 | 187,980 |
| | | **2,161,585** |
| **Diversified Financial Services 2.2%** | | |
| Citigroup, Inc. | 181,732 | 8,401,470 |
| Freddie Mac | 42,500 | 2,772,275 |
| JPMorgan Chase & Co. | 132,200 | 4,669,304 |
| Ocwen Financial Corp.* | 4,900 | 33,124 |
| Santander BanCorp | 6,400 | 160,384 |
| | | **16,036,557** |
| **Insurance 1.5%** | | |
| AFLAC, Inc. | 53,600 | 2,319,808 |
| Allstate Corp. | 54,600 | 3,262,350 |
| American International Group, Inc. | 50,400 | 2,928,240 |
| American Physicians Capital, Inc.* | 5,400 | 200,610 |
| Argonaut Group, Inc.* | 1,300 | 30,017 |
| Commerce Group, Inc. | 5,900 | 366,449 |
| Lincoln National Corp. | 30,100 | 1,412,292 |
| Navigators Group, Inc.* | 1,000 | 34,570 |
| Zenith National Insurance Corp. | 5,400 | 366,444 |
| | | **10,920,780** |
| **Real Estate 0.6%** | | |
| American Financial Realty Trust (REIT) | 8,500 | 130,730 |
| Amli Residential Properties Trust (REIT) | 5,800 | 181,308 |
| Colonial Properties Trust (REIT) | 4,700 | 206,800 |
| Commercial Net Lease Realty (REIT) | 9,100 | 186,277 |
| Corporate Office Properties Trust (REIT) | 8,000 | 235,600 |
| Cousins Properties, Inc. (REIT) | 5,700 | 168,606 |
| EastGroup Properties, Inc. (REIT) | 1,500 | 63,165 |
| FelCor Lodging Trust, Inc. (REIT)* | 12,000 | 173,760 |
| First Industrial Realty Trust, Inc. (REIT) | 3,100 | 123,690 |
| Gables Residential Trust (REIT) | 6,100 | 263,703 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Glenborough Realty Trust, Inc. (REIT) | 4,000 | 82,360 |
| Glimcher Realty Trust (REIT) | 3,800 | 105,450 |
| Heritage Property Investment Trust (REIT) | 5,800 | 203,116 |
| Highwoods Properties, Inc. (REIT) | 7,500 | 223,200 |
| Home Properties, Inc. (REIT) | 4,500 | 193,590 |
| Kilroy Realty Corp. (REIT) | 4,900 | 232,701 |
| Lexington Corporate Properties Trust (REIT) | 10,100 | 245,531 |
| LTC Properties, Inc. (REIT) | 1,300 | 26,910 |
| Maguire Properties, Inc. (REIT) | 200 | 5,668 |
| Nationwide Health Properties, Inc. (REIT) | 10,300 | 243,183 |
| Newcastle Investment Corp. (REIT) | 6,300 | 189,945 |
| OMEGA Healthcare Investors, Inc. (REIT) | 2,500 | 32,150 |
| Parkway Properties, Inc. (REIT) | 3,600 | 180,036 |
| Prentiss Properties Trust (REIT) | 4,800 | 174,912 |
| Senior Housing Properties Trust (REIT) | 11,700 | 221,247 |
| Sun Communities, Inc. (REIT) | 1,600 | 59,504 |
| Town & Country Trust (REIT) | 1,200 | 34,212 |
| Urstadt Biddle Properties "A" (REIT) | 1,200 | 20,784 |
| Washington Real Estate Investment Trust (REIT) | 7,500 | 234,000 |
| | | **4,442,138** |

## Health Care 9.2%

| | Shares | Value ($) |
|---|---|---|
| **Biotechnology 1.5%** | | |
| Albany Molecular Research, Inc.* | 20,400 | 285,600 |
| Amgen, Inc.* | 15,500 | 937,130 |
| Genentech, Inc.* | 77,200 | 6,197,616 |
| Gilead Sciences, Inc.* | 68,900 | 3,030,911 |
| ImmunoGen, Inc.* | 7,300 | 42,267 |
| Serologicals Corp.* | 14,600 | 310,250 |
| ZymoGenetics, Inc.* | 1,400 | 24,640 |
| | | **10,828,414** |
| **Health Care Equipment & Supplies 2.1%** | | |
| American Medical Systems Holdings, Inc.* | 23,200 | 479,080 |
| Baxter International, Inc. | 146,300 | 5,427,730 |
| Boston Scientific Corp.* | 48,300 | 1,304,100 |
| C.R. Bard, Inc. | 19,300 | 1,283,643 |
| DJ Orthopedics, Inc.* | 9,500 | 260,585 |
| Haemonetics Corp.* | 10,600 | 430,784 |
| Hologic, Inc.* | 2,800 | 111,300 |
| Medtronic, Inc. | 48,600 | 2,516,994 |
| Palomar Medical Technologies, Inc.* | 8,400 | 200,928 |
| West Pharmaceutical Services, Inc. | 3,500 | 98,175 |
| Zimmer Holdings, Inc.* | 39,900 | 3,039,183 |
| | | **15,152,502** |
| **Health Care Providers & Services 1.3%** | | |
| Apria Healthcare Group, Inc.* | 4,400 | 152,416 |
| Centene Corp.* | 12,000 | 402,960 |
| Cerner Corp.* | 4,000 | 271,880 |
| Chemed Corp. | 10,600 | 433,328 |
| Computer Programs & Systems, Inc. | 8,700 | 324,249 |
| Kindred Healthcare, Inc.* | 8,700 | 344,607 |
| LabOne, Inc.* | 3,500 | 139,335 |
| MedCath Corp.* | 9,800 | 272,342 |
| Per-Se Technologies, Inc.* | 16,600 | 348,932 |
| Quality Systems, Inc. | 6,000 | 284,280 |
| RehabCare Group, Inc.* | 12,000 | 320,760 |
| Sierra Health Services, Inc.* | 5,600 | 400,176 |
| UnitedHealth Group, Inc. | 103,400 | 5,391,276 |
| | | **9,086,541** |
| **Pharmaceuticals 4.3%** | | |
| Abbott Laboratories | 135,600 | 6,645,756 |
| Alpharma, Inc., "A" | 13,700 | 198,239 |
| Andrx Corp.* | 13,400 | 272,154 |
| Bristol-Myers Squibb Co. | 156,700 | 3,914,366 |
| Connetics Corp.* | 12,100 | 213,444 |
| Eli Lilly & Co. | 22,800 | 1,270,188 |
| Enzon Pharmaceuticals, Inc.* | 45,900 | 297,432 |
| First Horizon Pharmaceutical Corp.* | 8,100 | 154,224 |
| ICOS Corp.* | 14,500 | 306,965 |
| Impax Laboratories, Inc.* | 13,700 | 215,090 |
| Johnson & Johnson | 127,582 | 8,292,830 |
| Kos Pharmaceuticals, Inc.* | 4,900 | 320,950 |
| Perrigo Co. | 15,600 | 217,464 |
| Pfizer, Inc. | 179,225 | 4,943,026 |
| Pharmion Corp.* | 11,200 | 259,952 |
| United Therapeutics Corp.* | 5,000 | 241,000 |
| Valeant Pharmaceuticals International | 11,200 | 197,456 |
| Wyeth | 74,100 | 3,297,450 |
| | | **31,257,986** |

## Industrials 6.2%

| | Shares | Value ($) |
|---|---|---|
| **Aerospace & Defense 1.2%** | | |
| HEICO Corp. | 8,500 | 198,985 |
| Honeywell International, Inc. | 102,500 | 3,754,575 |
| Moog, Inc., "A"* | 17,450 | 549,501 |
| Teledyne Technologies, Inc.* | 4,000 | 130,320 |
| Triumph Group, Inc.* | 8,800 | 305,888 |
| United Technologies Corp. | 74,700 | 3,835,845 |
| | | **8,775,114** |
| **Air Freight & Logistics 0.3%** | | |
| FedEx Corp. | 24,700 | 2,000,947 |
| Hub Group, Inc.* | 7,400 | 185,370 |
| | | **2,186,317** |
| **Airlines 0.0%** | | |
| Alaska Air Group, Inc.* | 12,000 | **357,000** |
| **Building Products 0.2%** | | |
| Eagle Materials, Inc. | 6,300 | 583,317 |
| Lennox International, Inc. | 19,800 | 419,166 |
| USG Corp.* | 4,300 | 182,750 |
| | | **1,185,233** |
| **Commercial Services & Supplies 1.2%** | | |
| Avery Dennison Corp. | 40,700 | 2,155,472 |
| CompX International, Inc. | 300 | 5,025 |
| Consolidated Graphics, Inc.* | 7,500 | 305,775 |
| DiamondCluster International, Inc.* | 14,300 | 161,590 |
| Electro Rent Corp.* | 22,000 | 319,880 |
| Euronet Worldwide, Inc.* | 8,000 | 232,560 |
| FTI Consulting, Inc.* | 8,100 | 169,290 |
| John H. Harland Co. | 13,800 | 524,400 |
| Korn/Ferry International* | 21,500 | 381,625 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Labor Ready, Inc.* | 14,700 | 342,657 |
| Navigant Consulting, Inc.* | 17,000 | 300,220 |
| NuCo2, Inc.* | 16,200 | 415,854 |
| Pitney Bowes, Inc. | 54,000 | 2,351,700 |
| TeleTech Holdings, Inc.* | 23,100 | 188,265 |
| TNS, Inc.* | 1,900 | 44,403 |
| Ventiv Health, Inc.* | 14,500 | 279,560 |
| | | **8,342,076** |
| **Construction & Engineering 0.1%** | | |
| Dycom Industries, Inc.* | 20,700 | 410,067 |
| Perini Corp.* | 15,200 | 249,584 |
| Quanta Services, Inc.* | 26,800 | 235,840 |
| | | **895,491** |
| **Electrical Equipment 0.4%** | | |
| Emerson Electric Co. | 44,000 | **2,755,720** |
| **Industrial Conglomerates 2.1%** | | |
| 3M Co. | 19,500 | 1,409,850 |
| Blount International, Inc.* | 29,800 | 497,362 |
| General Electric Co. | 319,000 | 11,053,350 |
| Textron, Inc. | 32,300 | 2,449,955 |
| | | **15,410,517** |
| **Machinery 0.6%** | | |
| AGCO Corp.* | 11,000 | 210,320 |
| Caterpillar, Inc. | 14,200 | 1,353,402 |
| Gardner Denver, Inc.* | 11,000 | 385,880 |
| JLG Industries, Inc. | 16,000 | 439,680 |
| Kennametal, Inc. | 12,900 | 591,465 |
| NACCO Industries, Inc., "A" | 400 | 42,888 |
| Sauer-Danfoss, Inc. | 15,600 | 277,212 |
| Stewart & Stevenson Services, Inc. | 16,200 | 367,092 |
| Toro Co. | 7,500 | 289,575 |
| Wabash National Corp.* | 11,600 | 281,068 |
| | | **4,238,582** |
| **Road & Rail 0.1%** | | |
| Knight Transportation, Inc. | 19,700 | 479,301 |
| Old Dominion Freight Line, Inc.* | 2,400 | 64,392 |
| | | **543,693** |
| **Trading Companies & Distributors 0.0%** | | |
| United Rentals, Inc.* | 15,700 | **317,297** |
| **Information Technology 12.2%** | | |
| **Communications Equipment 1.9%** | | |
| Arris Group, Inc.* | 25,100 | 218,621 |
| Avocent Corp.* | 7,400 | 193,436 |
| Belden CDT, Inc. | 5,800 | 122,960 |
| Cisco Systems, Inc.* | 253,800 | 4,850,118 |
| ComTech Telecommunications Corp.* | 7,400 | 241,462 |
| Equinix, Inc.* | 1,800 | 78,012 |
| InterDigital Communications Corp.* | 17,300 | 302,750 |
| NETGEAR, Inc.* | 7,800 | 145,080 |
| Nokia Oyj, (ADR) | 268,500 | 4,467,840 |
| QUALCOMM, Inc. | 78,800 | 2,601,188 |
| Symmetricom, Inc.* | 26,900 | 278,953 |
| | | **13,500,420** |

| | Shares | Value ($) |
|---|---|---|
| **Computers & Peripherals 2.3%** | | |
| Apple Computer, Inc.* | 22,200 | 817,182 |
| infoUSA, Inc. | 14,000 | 163,800 |
| Dell, Inc.* | 59,900 | 2,366,649 |
| EMC Corp.* | 228,000 | 3,125,880 |
| Hewlett-Packard Co. | 154,800 | 3,639,348 |
| Imation Corp. | 12,800 | 496,512 |
| International Business Machines Corp. | 76,800 | 5,698,560 |
| Maxtor Corp.* | 41,900 | 217,880 |
| PalmOne, Inc.* | 8,400 | 250,068 |
| | | **16,612,079** |
| **Electronic Equipment & Instruments 0.2%** | | |
| Agilysys, Inc. | 17,400 | 273,180 |
| American Science & Engineering, Inc.* | 7,700 | 341,572 |
| Itron, Inc.* | 7,000 | 312,760 |
| LeCroy Corp.* | 15,900 | 218,625 |
| MIPS Technologies, Inc.* | 10,100 | 72,720 |
| Paxar Corp.* | 20,400 | 362,100 |
| | | **1,580,957** |
| **Internet Software & Services 0.3%** | | |
| Digital Insight Corp.* | 5,100 | 121,992 |
| Digital River, Inc.* | 6,700 | 212,725 |
| EarthLink, Inc.* | 23,600 | 204,376 |
| InfoSpace, Inc.* | 4,500 | 148,185 |
| j2 Global Communications, Inc.* | 3,900 | 134,316 |
| Openwave Systems, Inc.* | 2,700 | 44,280 |
| Redback Networks, Inc.* | 17,200 | 109,736 |
| Yahoo!, Inc.* | 37,200 | 1,288,980 |
| | | **2,264,590** |
| **IT Consulting & Services 1.5%** | | |
| Accenture Ltd., "A"* | 64,400 | 1,459,948 |
| Automatic Data Processing, Inc. | 80,500 | 3,378,585 |
| Covansys Corp.* | 18,600 | 239,010 |
| First Data Corp. | 45,000 | 1,806,300 |
| Fiserv, Inc.* | 59,600 | 2,559,820 |
| Paychex, Inc. | 24,600 | 800,484 |
| Sapient Corp.* | 22,100 | 175,253 |
| TALX Corp. | 8,000 | 231,280 |
| | | **10,650,680** |
| **Semiconductors & Semiconductor Equipment 3.4%** | | |
| ADE Corp.* | 7,900 | 221,595 |
| Applied Materials, Inc. | 174,900 | 2,829,882 |
| Axcelis Technologies, Inc.* | 36,300 | 249,018 |
| Broadcom Corp., "A"* | 44,500 | 1,580,195 |
| Cypress Semiconductor Corp.* | 20,500 | 258,095 |
| Diodes, Inc.* | 8,400 | 262,080 |
| Emulex Corp.* | 15,900 | 290,334 |
| Fairchild Semiconductor International, Inc.* | 21,300 | 314,175 |
| Integrated Device Technology, Inc.* | 1,700 | 18,275 |
| Intel Corp. | 361,800 | 9,428,508 |
| IXYS Corp.* | 16,000 | 226,880 |
| Linear Technology Corp. | 53,100 | 1,948,239 |
| Micrel, Inc.* | 4,800 | 55,296 |
| OmniVision Technologies, Inc.* | 14,100 | 191,619 |
| Photronics, Inc.* | 10,200 | 238,068 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Silicon Image, Inc.* | 21,300 | 218,538 |
| Texas Instruments, Inc. | 204,800 | 5,748,736 |
| TTM Technologies, Inc.* | 23,800 | 181,118 |
| Varian Semiconductor Equipment Associates, Inc.* | 7,500 | 277,500 |
| | | **24,538,151** |
| **Software 2.6%** | | |
| Adobe Systems, Inc. | 44,400 | 1,270,728 |
| Ansoft Corp.* | 13,500 | 326,160 |
| Electronic Arts, Inc.* | 36,600 | 2,071,926 |
| FileNET Corp.* | 18,200 | 457,548 |
| Hyperion Solutions Corp.* | 8,000 | 321,920 |
| Internet Security Systems, Inc.* | 7,600 | 154,204 |
| Interwoven, Inc.* | 17,300 | 130,269 |
| Intuit, Inc.* | 18,600 | 839,046 |
| Microsoft Corp. | 410,000 | 10,184,400 |
| MicroStrategy, Inc., "A"* | 22 | 1,167 |
| Oracle Corp.* | 112,500 | 1,485,000 |
| PAR Technology Corp.* | 9,400 | 300,800 |
| Parametric Technology Corp.* | 52,100 | 332,398 |
| SS&C Technologies, Inc. | 900 | 28,512 |
| Symantec Corp.* | 26,500 | 576,110 |
| TIBCO Software, Inc.* | 30,100 | 196,854 |
| Wind River Systems, Inc.* | 16,500 | 258,720 |
| Witness Systems, Inc.* | 12,900 | 235,167 |
| | | **19,170,929** |
| **Materials 1.3%** | | |
| **Chemicals 0.6%** | | |
| Air Products & Chemicals, Inc. | 33,600 | 2,026,080 |
| Cambrex Corp. | 16,500 | 314,325 |
| Ecolab, Inc. | 44,800 | 1,449,728 |
| Terra Industries, Inc.* | 58,800 | 400,428 |
| W.R. Grace & Co.* | 23,600 | 183,844 |
| | | **4,374,405** |
| **Containers & Packaging 0.4%** | | |
| Silgan Holdings, Inc. | 6,400 | 359,936 |
| Sonoco Products Co. | 81,600 | 2,162,400 |
| | | **2,522,336** |
| **Metals & Mining 0.3%** | | |
| AK Steel Holding Corp.* | 36,300 | 232,683 |
| Alcoa, Inc. | 35,400 | 925,002 |
| Carpenter Technology Corp. | 6,100 | 315,980 |
| Century Aluminum Co.* | 8,500 | 173,400 |
| Quanex Corp. | 8,800 | 466,488 |
| | | **2,113,553** |
| **Paper & Forest Products 0.0%** | | |
| Deltic Timber Corp. | 8,200 | **311,846** |
| **Telecommunication Services 0.8%** | | |
| **Diversified Telecommunication Services 0.8%** | | |
| Alaska Communications Systems Group, Inc. | 3,300 | 32,703 |
| Aspect Communications Corp.* | 18,800 | 211,124 |
| CT Communications, Inc. | 22,100 | 288,405 |
| General Communication, Inc., "A"* | 27,500 | 271,425 |
| North Pittsburgh Systems, Inc. | 9,600 | 187,776 |
| Premiere Global Services, Inc.* | 25,600 | 289,024 |
| SBC Communications, Inc. | 69,100 | 1,641,125 |
| TALK America Holdings, Inc.* | 23,200 | 232,232 |
| Verizon Communications, Inc. | 60,600 | 2,093,730 |
| | | **5,247,544** |
| **Wireless Telecommunication Services 0.0%** | | |
| UbiquiTel, Inc.* | 24,400 | **199,104** |
| **Utilities 0.5%** | | |
| **Electric Utilities 0.4%** | | |
| PNM Resources, Inc. | 12,700 | 365,887 |
| Progress Energy, Inc. | 54,000 | 2,442,960 |
| | | **2,808,847** |
| **Gas Utilities 0.1%** | | |
| Energen Corp. | 9,400 | 329,470 |
| Northwest Natural Gas Co. | 2,800 | 107,072 |
| South Jersey Industries, Inc. | 5,100 | 311,713 |
| | | **748,255** |
| **Total Common Stocks** (Cost $350,628,516) | | **417,865,900** |

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Convertible Bond 0.0%** | | |
| DIMON, Inc., 6.25%, 3/31/2007 | 70,000 | 70,000 |
| HIH Capital Ltd., 144A, Series DOM, 7.5%, 9/25/2006 | 60,000 | 59,400 |
| **Total Convertible Bond** (Cost $125,873) | | **129,400** |
| **Corporate Bonds 10.5%** | | |
| **Consumer Discretionary 2.1%** | | |
| 155 East Tropicana LLC/Finance, 144A, 8.75%, 4/1/2012 | 110,000 | 106,975 |
| Adesa, Inc., 7.625%, 6/15/2012 | 55,000 | 55,825 |
| AMC Entertainment, Inc., 8.0%, 3/1/2014 | 275,000 | 244,063 |
| Auburn Hills Trust, 12.375%, 5/1/2020 | 131,000 | 198,337 |
| AutoNation, Inc., 9.0%, 8/1/2008 | 100,000 | 109,250 |
| Aztar Corp., 7.875%, 6/15/2014 | 255,000 | 269,663 |
| Bally Total Fitness Holdings Corp., 10.5%, 7/15/2011 | 65,000 | 64,919 |
| Cablevision Systems New York Group, Series B, 7.89%**, 4/1/2009 | 90,000 | 90,225 |
| Caesars Entertainment, Inc.: | | |
| 8.875%, 9/15/2008 | 85,000 | 94,881 |
| 9.375%, 2/15/2007 | 55,000 | 59,125 |
| Charter Communications Holdings LLC: | | |
| Step-up Coupon, 0% to 5/15/2006, 11.75% to 5/15/2011 | 175,000 | 115,938 |
| 9.625%, 11/15/2009 | 285,000 | 213,037 |
| 10.25%, 9/15/2010 | 560,000 | 566,300 |
| Comcast MO of Delaware, Inc., 9.0%, 9/1/2008 | 150,000 | 170,007 |
| Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 | 195,000 | 154,050 |
| CSC Holdings, Inc.: | | |
| 7.25%, 7/15/2008 | 65,000 | 65,162 |
| 7.875%, 12/15/2007 | 270,000 | 278,775 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| DaimlerChrysler NA Holding Corp., 4.75%, 1/15/2008 | 250,000 | 250,966 |
| Dex Media East LLC/Financial, 12.125%, 11/15/2012 | 698,000 | 835,855 |
| Dura Operating Corp.: | | |
| Series B, 8.625%, 4/15/2012 | 95,000 | 85,500 |
| Series B, 9.0%, 5/1/2009 EUR | 30,000 | 25,050 |
| EchoStar DBS Corp., 6.625%, 10/1/2014 | 50,000 | 49,375 |
| Foot Locker, Inc., 8.5%, 1/15/2022 | 135,000 | 148,163 |
| Ford Motor Co., 7.45%, 7/16/2031 | 30,000 | 25,044 |
| General Motors Corp., 8.25%, 7/15/2023 | 10,000 | 8,275 |
| Gregg Appliances, Inc., 144A, 9.0%, 2/1/2013 | 100,000 | 93,750 |
| Harrah's Operating Co., Inc., 144A, 5.625%, 6/1/2015 | 635,000 | 646,778 |
| Interep National Radio Sales, Inc., Series B, 10.0%, 7/1/2008 | 150,000 | 124,688 |
| ITT Corp., 7.375%, 11/15/2015 | 140,000 | 155,750 |
| Jacobs Entertainment, Inc.: | | |
| 11.875%, 2/1/2009 | 370,000 | 399,137 |
| 144A, 11.875%, 2/1/2009 | 90,000 | 97,088 |
| Levi Strauss & Co., 7.73%**, 4/1/2012 | 80,000 | 75,600 |
| Liberty Media Corp.: | | |
| 5.7%, 5/15/2013 | 257,000 | 239,036 |
| 7.875%, 7/15/2009 | 10,000 | 10,672 |
| 8.5%, 7/15/2029 | 10,000 | 10,103 |
| Mandalay Resort Group, 6.5%, 7/31/2009 | 117,000 | 119,633 |
| Mediacom LLC, 9.5%, 1/15/2013 | 210,000 | 209,475 |
| MGM MIRAGE: | | |
| 6.0%, 10/1/2009 | 235,000 | 236,175 |
| 8.375%, 2/1/2011 | 355,000 | 386,950 |
| 9.75%, 6/1/2007 | 110,000 | 119,212 |
| MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010 | 70,000 | 75,950 |
| NCL Corp., 144A, 11.625%, 7/15/2014 | 180,000 | 189,450 |
| Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 | 255,000 | 175,950 |
| Paxson Communications Corp., Step-up Coupon, 0% to 1/15/2006, 12.25% to 1/15/2009 | 70,000 | 65,450 |
| 10.75%, 7/15/2008 | 80,000 | 78,800 |
| Petro Stopping Centers, 9.0%, 2/15/2012 | 260,000 | 261,300 |
| Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 | 145,000 | 153,700 |
| Premier Entertainment Biloxi LLC/Finance, 10.75%, 2/1/2012 | 220,000 | 213,400 |
| PRIMEDIA, Inc.: | | |
| 8.638%**, 5/15/2010 | 285,000 | 297,825 |
| 8.875%, 5/15/2011 | 240,000 | 251,400 |
| Renaissance Media Group LLC, 10.0%, 4/15/2008 | 130,000 | 128,700 |
| Resorts International Hotel & Casino, Inc., 11.5%, 3/15/2009 | 270,000 | 307,462 |
| Restaurant Co., 11.25%, 5/15/2008 | 234,523 | 234,523 |
| Schuler Homes, Inc., 10.5%, 7/15/2011 | 370,000 | 407,925 |
| Simmons Bedding Co.,: | | |
| Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014, 144A, | 365,000 | 164,250 |
| 7.875%, 1/15/2014, 144A | 75,000 | 64,500 |
| Sinclair Broadcast Group, Inc.: | | |
| 8.0%, 3/15/2012 | 65,000 | 66,625 |
| 8.75%, 12/15/2011 | 590,000 | 619,500 |
| Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013 | 105,000 | 106,050 |
| Tele-Communications, Inc.: | | |
| 9.875%, 6/15/2022 | 670,000 | 967,573 |
| 10.125%, 4/15/2022 | 28,000 | 41,068 |
| Time Warner, Inc., 7.625%, 4/15/2031 | 300,000 | 374,667 |
| Toys "R" Us, Inc., 7.375%, 10/15/2018 | 185,000 | 149,850 |
| Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 | 480,000 | 468,600 |
| TRW Automotive, Inc., 11.0%, 2/15/2013 | 355,000 | 408,250 |
| United Auto Group, Inc., 9.625%, 3/15/2012 | 250,000 | 266,875 |
| Wheeling Island Gaming, Inc., 10.125%, 12/15/2009 | 75,000 | 79,500 |
| Williams Scotsman, Inc., 9.875%, 6/1/2007 | 365,000 | 366,825 |
| Wynn Las Vegas LLC, 144A, 6.625%, 12/1/2014 | 170,000 | 165,325 |
| XM Satellite Radio, Inc., Step-up Coupon, 0% to 12/31/2005, 14.0% to 12/31/2009 | 275,000 | 283,938 |
| 12.0%, 6/15/2010 | 10,000 | 11,250 |
| Young Broadcasting, Inc.: | | |
| 8.75%, 1/15/2014 | 265,000 | 234,525 |
| 10.0%, 3/1/2011 | 60,000 | 57,000 |
| | | **14,946,813** |

## Consumer Staples 0.2%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Agrilink Foods, Inc., 11.875%, 11/1/2008 | 20,000 | 20,675 |
| Alliance One International, Inc.: | | |
| 144A, 11.0%, 5/15/2012 | 150,000 | 154,500 |
| 144A, 12.75%, 11/15/2012 | 70,000 | 66,500 |
| Del Laboratories, Inc., 144A, 8.0%, 2/1/2012 | 90,000 | 77,400 |
| Duane Reade, Inc., 9.75%, 8/1/2011 | 100,000 | 81,500 |
| GNC Corp.: | | |
| 8.5%, 12/1/2010 | 65,000 | 52,000 |
| 144A, 8.625%, 1/15/2011 | 20,000 | 18,500 |
| National Beef Packing Co., 10.5%, 8/1/2011 | 60,000 | 57,150 |
| North Atlantic Trading Co., 9.25%, 3/1/2012 | 410,000 | 309,550 |
| Pinnacle Foods Holding Corp., 8.25%, 12/1/2013 | 115,000 | 102,925 |
| Rite Aid Corp., 11.25%, 7/1/2008 | 265,000 | 279,907 |
| Swift & Co.: | | |
| 10.125%, 10/1/2009 | 185,000 | 201,650 |
| 12.5%, 1/1/2010 | 45,000 | 50,231 |
| Viskase Co., Inc., 11.5%, 6/15/2011 | 170,000 | 183,600 |
| | | **1,656,088** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Energy 0.6%** | | |
| Belden & Blake Corp., 8.75%, 7/15/2012 | 175,000 | 171,500 |
| Chesapeake Energy Corp., 6.875%, 1/15/2016 | 30,000 | 31,275 |
| CITGO Petroleum Corp., 6.0%, 10/15/2011 | 235,000 | 234,413 |
| Dynegy Holdings, Inc.: | | |
| 6.875%, 4/1/2011 | 65,000 | 64,188 |
| 7.125%, 5/15/2018 | 145,000 | 138,112 |
| 7.625%, 10/15/2026 | 115,000 | 109,537 |
| 8.75%, 2/15/2012 | 30,000 | 32,700 |
| 144A, 9.875%, 7/15/2010 | 245,000 | 270,725 |
| El Paso Production Holding Corp., 7.75%, 6/1/2013 | 165,000 | 176,138 |
| Enterprise Products Operating LP, 7.5%, 2/1/2011 | 957,000 | 1,075,287 |
| Key Energy Services, Inc., 6.375%, 5/1/2013 | 60,000 | 60,300 |
| Newpark Resources, Inc., Series B, 8.625%, 12/15/2007 | 255,000 | 252,450 |
| NGC Corp. Capital Trust I, Series B, 8.316%, 6/1/2027 | 200,000 | 175,000 |
| Sonat, Inc., 7.0%, 2/1/2018 | 100,000 | 93,250 |
| Southern Natural Gas, 8.875%, 3/15/2010 | 190,000 | 208,416 |
| Stone Energy Corp.: | | |
| 6.75%, 12/15/2014 | 130,000 | 126,425 |
| 8.25%, 12/15/2011 | 290,000 | 303,775 |
| Whiting Petroleum Corp.: | | |
| 7.25%, 5/1/2012 | 15,000 | 15,375 |
| 7.25%, 5/1/2013 | 15,000 | 15,300 |
| Williams Companies, Inc.: | | |
| 8.125%, 3/15/2012 | 350,000 | 397,250 |
| 8.75%, 3/15/2032 | 110,000 | 132,137 |
| | | **4,083,553** |
| **Financials 2.1%** | | |
| AAC Group Holding Corp., 144A, Step-up Coupon, 0% to 10/1/2008, 10.25% to 10/1/2012 | 60,000 | 40,500 |
| Affinia Group, Inc., 144A, 9.0%, 11/30/2014 | 255,000 | 214,200 |
| Alamosa Delaware, Inc., Step-up Coupon, 0% to 7/31/2005, 12.0% to 7/31/2009 | 110,000 | 121,275 |
| Allstate Corp., 5.55%, 5/9/2035 | 510,000 | 527,743 |
| American General Finance Corp.: | | |
| Series H, 4.0%, 3/15/2011 | 1,314,000 | 1,268,796 |
| Series I, 4.875%, 5/15/2010 | 480,000 | 484,653 |
| American General Institutional Capital, 144A, 8.125%, 3/15/2046 | 230,000 | 312,282 |
| AmeriCredit Corp., 9.25%, 5/1/2009 | 425,000 | 452,625 |
| BF Saul Real Estate Investment Trust, (REIT) 7.5%, 3/1/2014 | 80,000 | 82,800 |
| DBS Capital Funding Corp., 144A, 7.657%, 3/31/2049 | 198,000 | 226,926 |
| Dow Jones CDX: | | |
| 144A, Series 4-T3, 8.0%, 6/29/2010 | 213,000 | 216,062 |
| 144A, Series 4-T1, 8.25%, 6/29/2010 | 252,200 | 253,146 |
| E*TRADE Financial Corp., 8.0%, 6/15/2011 | 185,000 | 194,713 |
| Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024 | 545,000 | 676,559 |
| FINOVA Group, Inc., 7.5%, 11/15/2009 | 488,000 | 217,160 |
| Ford Motor Credit Co.: | | |
| 5.8%, 1/12/2009 | 335,000 | 318,014 |
| 6.875%, 2/1/2006 | 1,226,000 | 1,238,254 |
| 7.25%, 10/25/2011 | 290,000 | 279,058 |
| General Motors Acceptance Corp.: | | |
| 4.13%**, 3/20/2007 | 255,000 | 247,308 |
| 6.125%, 8/28/2007 | 65,000 | 64,332 |
| 6.75%, 1/15/2006 | 3,340,000 | 3,366,352 |
| 6.75%, 12/1/2014 | 90,000 | 80,521 |
| 6.875%, 9/15/2011 | 35,000 | 32,308 |
| 8.0%, 11/1/2031 | 1,040,000 | 928,037 |
| H&E Equipment/Finance, 11.125%, 6/15/2012 | 185,000 | 203,962 |
| HSBC Finance Corp., 4.125%, 12/15/2008 | 160,000 | 158,973 |
| JPMorgan Chase Capital XV, 5.875%, 3/15/2035 | 810,000 | 831,396 |
| Merrill Lynch & Co., Inc., Series C, 5.0%, 1/15/2015 | 280,000 | 286,701 |
| Neff Rental/Neff Finance Corp., 144A, 11.25%, 6/15/2012 | 60,000 | 60,000 |
| Poster Financial Group, Inc., 8.75%, 12/1/2011 | 170,000 | 172,975 |
| PXRE Capital Trust I, 8.85%, 2/1/2027 | 160,000 | 165,908 |
| Qwest Capital Funding, Inc., 6.5%, 11/15/2018 | 65,000 | 53,300 |
| R.H. Donnelly Finance Corp., 10.875%, 12/15/2012 | 140,000 | 162,750 |
| Radnor Holdings Corp., 11.0%, 3/15/2010 | 290,000 | 197,925 |
| Rafaella Apparel Group, Inc., 144A, 11.25%, 6/15/2011 | 70,000 | 67,375 |
| RC Royalty Subordinated LLC, 7.0%, 1/1/2018 | 155,000 | 127,100 |
| Simon Property Group L.P., (REIT), 144A, 4.6%, 6/15/2010 | 240,000 | 240,133 |
| TIG Capital Holdings Trust, 144A, 8.597%, 1/15/2027 | 230,000 | 186,300 |
| Triad Acquisition, 144A, 11.125%, 5/1/2013 | 120,000 | 121,500 |
| UGS Corp., 10.0%, 6/1/2012 | 230,000 | 255,300 |
| Universal City Development, 11.75%, 4/1/2010 | 315,000 | 361,462 |
| | | **15,496,684** |
| **Health Care 0.3%** | | |
| Cinacalcet Royalty Subordinated LLC, 144A, 8.0%, 3/30/2017 | 115,000 | 116,150 |
| Encore Medical Corp., 9.75%, 10/1/2012 | 65,000 | 63,050 |
| Hanger Orthopedic Group, Inc., 10.375%, 2/15/2009 | 90,000 | 83,025 |
| Health Care Service Corp., 144A, 7.75%, 6/15/2011 | 867,000 | 1,006,649 |
| HEALTHSOUTH Corp., 10.75%, 10/1/2008 | 225,000 | 234,000 |
| InSight Health Services Corp., Series B, 9.875%, 11/1/2011 | 160,000 | 124,800 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Tenet Healthcare Corp., 144A, 9.25%, 2/1/2015 | 485,000 | 503,188 |
| | | **2,130,862** |

**Industrials 1.4%**

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Aavid Thermal Technologies, Inc., 12.75%, 2/1/2007 | 353,000 | 373,739 |
| Allied Security Escrow Corp., 11.375%, 7/15/2011 | 210,000 | 204,750 |
| Allied Waste North America, Inc.: | | |
| Series B, 5.75%, 2/15/2011 | 380,000 | 355,300 |
| Series B, 9.25%, 9/1/2012 | 220,000 | 237,600 |
| American Color Graphics, 10.0%, 6/15/2010 | 175,000 | 126,000 |
| Avondale Mills, Inc., 144A, 10.093%**, 7/1/2012 | 175,000 | 164,500 |
| BAE System 2001 Asset Trust, "B", Series 2001, 144A, 7.156%, 12/15/2011 | 396,429 | 424,890 |
| Bear Creek Corp., 144A, 8.33%**, 3/1/2012 | 90,000 | 87,300 |
| Beazer Homes USA, Inc.: | | |
| 8.375%, 4/15/2012 | 130,000 | 139,425 |
| 8.625%, 5/15/2011 | 85,000 | 90,100 |
| Browning-Ferris Industries: | | |
| 7.4%, 9/15/2035 | 320,000 | 275,200 |
| 9.25%, 5/1/2021 | 20,000 | 20,250 |
| Cenveo Corp., 7.875%, 12/1/2013 | 195,000 | 185,250 |
| Collins & Aikman Floor Cover, Series B, 9.75%, 2/15/2010 | 310,000 | 320,850 |
| Columbus McKinnon Corp., 10.0%, 8/1/2010 | 125,000 | 135,625 |
| Compression Polymers Corp.: | | |
| 144A, 10.46%**, 7/1/2012 | 65,000 | 65,000 |
| 144A, 10.5%, 7/1/2013 | 130,000 | 130,000 |
| Congoleum Corp., 8.625%, 8/1/2008* | 135,000 | 131,963 |
| Cornell Companies, Inc., 10.75%, 7/1/2012 | 190,000 | 197,125 |
| D.R. Horton, Inc.: | | |
| 5.472%, 6/15/2012 | 1,010,000 | 1,004,445 |
| 5.625%, 9/15/2014 | 272,000 | 271,608 |
| Dana Corp., 7.0%, 3/1/2029 | 205,000 | 179,089 |
| Erico International Corp., 8.875%, 3/1/2012 | 75,000 | 76,125 |
| Goodman Global Holding Co., Inc., 144A, 7.875%, 12/15/2012 | 150,000 | 138,750 |
| HydroChem Industrial Services, Inc., 144A, 9.25%, 2/15/2013 | 40,000 | 37,000 |
| ISP Chemco, Inc., Series B, 10.25%, 7/1/2011 | 350,000 | 381,500 |
| K. Hovnanian Enterprises, Inc.: | | |
| 6.25%, 1/15/2015 | 550,000 | 543,125 |
| 8.875%, 4/1/2012 | 180,000 | 194,850 |
| Kansas City Southern: | | |
| 7.5%, 6/15/2009 | 65,000 | 67,112 |
| 9.5%, 10/1/2008 | 400,000 | 436,000 |
| Kinetek, Inc., Series D, 10.75%, 11/15/2006 | 315,000 | 286,650 |
| Laidlaw International, Inc., 10.75%, 6/15/2011 | 210,000 | 246,053 |
| Metaldyne Corp., 144A, 10.0%, 11/1/2013 | 195,000 | 159,900 |
| Millennium America, Inc., 9.25%, 6/15/2008 | 365,000 | 395,112 |
| NTK Holdings, Inc., 144A, Step-up Coupon, 0% to 9/1/2009, 10.75% to 3/1/2014 | 165,000 | 77,550 |
| Rainbow National Services LLC, 144A, 10.375%, 9/1/2014 | 160,000 | 184,000 |
| Remington Arms Co., Inc., 10.5%, 2/1/2011 | 95,000 | 89,775 |
| Sea Containers Ltd., Series B, 10.75%, 10/15/2006 | 30,000 | 30,300 |
| Securus Technologies, Inc., 144A, 11.0%, 9/1/2011 | 130,000 | 109,850 |
| Ship Finance International Ltd., 8.5%, 12/15/2013 | 295,000 | 280,619 |
| Technical Olympic USA, Inc.: | | |
| 7.5%, 3/15/2011 | 95,000 | 88,350 |
| 10.375%, 7/1/2012 | 325,000 | 339,625 |
| The Brickman Group Ltd., Series B, 11.75%, 12/15/2009 | 125,000 | 141,562 |
| United Rentals North America, Inc., 7.0%, 2/15/2014 | 280,000 | 266,700 |
| Xerox Capital Trust I, 8.0%, 2/1/2027 | 95,000 | 98,325 |
| | | **9,788,842** |

**Information Technology 0.2%**

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Activant Solutions, Inc.: | | |
| 144A, 8.904%**, 4/1/2010 | 20,000 | 20,700 |
| 10.5%, 6/15/2011 | 160,000 | 173,600 |
| Eschelon Operating Co.: | | |
| 8.375%, 3/15/2010 | 35,000 | 30,450 |
| 8.375%, 3/15/2010 | 50,000 | 43,500 |
| Lucent Technologies, Inc.: | | |
| 6.45%, 3/15/2029 | 365,000 | 326,675 |
| 7.25%, 7/15/2006 | 70,000 | 71,575 |
| Sanmina-SCI Corp.: | | |
| 144A, 6.75%, 3/1/2013 | 450,000 | 429,750 |
| 10.375%, 1/15/2010 | 263,000 | 291,930 |
| Viasystems, Inc., 10.5%, 1/15/2011 | 65,000 | 59,800 |
| | | **1,447,980** |

**Materials 1.4%**

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Aqua Chemical, Inc., 11.25%, 7/1/2008 | 80,000 | 67,200 |
| ARCO Chemical Co., 9.8%, 2/1/2020 | 640,000 | 716,800 |
| Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014 | 455,000 | 288,925 |
| Caraustar Industries, Inc., 9.875%, 4/1/2011 | 415,000 | 418,112 |
| Constar International, Inc.: | | |
| 144A, 6.643%**, 2/15/2012 | 85,000 | 81,175 |
| 11.0%, 12/1/2012 | 25,000 | 19,875 |
| Dayton Superior Corp.: | | |
| 10.75%, 9/15/2008 | 170,000 | 176,800 |
| 13.0%, 6/15/2009 | 290,000 | 255,200 |
| Edgen Acquisition Corp., 144A, 9.875%, 2/1/2011 | 115,000 | 111,550 |
| GEO Specialty Chemicals, Inc., 144A, 11.62%, 12/31/2009 | 151,000 | 160,060 |
| Georgia-Pacific Corp.: | | |
| 7.75%, 11/15/2029 | 434,000 | 487,708 |
| 8.0%, 1/15/2024 | 340,000 | 391,000 |
| 8.875%, 5/15/2031 | 568,000 | 702,900 |
| 9.375%, 2/1/2013 | 265,000 | 299,781 |
| Hercules, Inc., 6.75%, 10/15/2029 | 160,000 | 155,200 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Huntsman Advanced Materials LLC, 11.0%, 7/15/2010 | 230,000 | 259,900 |
| Huntsman LLC, 11.625%, 10/15/2010 | 307,000 | 359,574 |
| IMC Global, Inc.: | | |
| 7.375%, 8/1/2018 | 55,000 | 55,000 |
| 10.875%, 8/1/2013 | 200,000 | 234,500 |
| Intermet Corp., 9.75%, 6/15/2009 * | 25,000 | 10,813 |
| Lubrizol Corp.: | | |
| 5.5%, 10/1/2014 | 949,000 | 978,719 |
| 6.5%, 10/1/2034 | 704,000 | 777,170 |
| MMI Products, Inc., Series B, 11.25%, 4/15/2007 | 170,000 | 167,875 |
| Neenah Foundry Co.: | | |
| 144A, 11.0%, 9/30/2010 | 450,000 | 488,250 |
| 144A, 13.0%, 9/30/2013 | 40,000 | 39,600 |
| Newmont Mining Corp., 5.875%, 4/1/2035 | 390,000 | 397,415 |
| NewPage Corp., 144A, 9.46%**, 5/1/2012 | 150,000 | 150,375 |
| Omnova Solutions, Inc., 11.25%, 6/1/2010 | 340,000 | 357,000 |
| Oregon Steel Mills, Inc., 10.0%, 7/15/2009 | 95,000 | 102,362 |
| Oxford Automotive, Inc., 144A, 12.0%, 10/15/2010 * | 269,573 | 134,786 |
| Portola Packaging, Inc., 8.25%, 2/1/2012 | 255,000 | 173,400 |
| Rockwood Specialties Group, Inc.: | | |
| 144A, 7.625%, 11/15/2014 EUR | 120,000 | 146,670 |
| 10.625%, 5/15/2011 | 20,000 | 22,350 |
| Sheffield Steel Corp., 11.375%, 8/15/2011 | 105,000 | 101,850 |
| Texas Industries, Inc., 10.25%, 6/15/2011 | 275,000 | 318,656 |
| TriMas Corp., 9.875%, 6/15/2012 | 410,000 | 344,400 |
| UAP Holding Corp., Step-up Coupon, 0% to 1/15/2008, 10.75% to 7/15/2012 | 140,000 | 114,800 |
| United States Steel Corp., 9.75%, 5/15/2010 | 248,000 | 267,840 |
| Weyerhaeuser Co., 6.75%, 3/15/2012 | 90,000 | 99,022 |
| | | **10,434,613** |

### Telecommunication Services 0.8%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| AirGate PCS, Inc., 6.891%**, 10/15/2011 | 60,000 | 61,350 |
| American Cellular Corp., Series B, 10.0%, 8/1/2011 | 205,000 | 208,075 |
| Anixter International, Inc., 5.95%, 3/1/2015 | 108,000 | 107,022 |
| AT&T Corp.: | | |
| 9.05%, 11/15/2011 | 206,000 | 237,415 |
| 9.75%, 11/15/2031 | 235,000 | 305,794 |
| Bell Atlantic New Jersey, Inc., Series A, 5.875%, 1/17/2012 | 745,000 | 787,550 |
| Cincinnati Bell, Inc.: | | |
| 7.25%, 7/15/2013 | 80,000 | 84,000 |
| 8.375%, 1/15/2014 | 540,000 | 553,500 |
| 144A, 8.375%, 1/15/2014 | 20,000 | 20,500 |
| Dobson Communications Corp., 8.875%, 10/1/2013 | 105,000 | 96,075 |
| Insight Midwest LP, 9.75%, 10/1/2009 | 45,000 | 46,631 |
| LCI International, Inc., 7.25%, 6/15/2007 | 230,000 | 223,100 |
| Level 3 Financing, Inc., 144A, 10.75%, 10/15/2011 | 45,000 | 37,913 |
| MCI, Inc., 8.735%, 5/1/2014 | 300,000 | 336,375 |
| Nextel Communications, Inc.: | | |
| 5.95%, 3/15/2014 | 205,000 | 212,944 |
| 7.375%, 8/1/2015 | 550,000 | 594,000 |
| Nextel Partners, Inc., 8.125%, 7/1/2011 | 145,000 | 157,325 |
| Qwest Corp.: | | |
| 144A, 6.671%**, 6/15/2013 | 90,000 | 92,137 |
| 7.25%, 9/15/2025 | 230,000 | 215,050 |
| Qwest Services Corp.: | | |
| 13.5%, 12/15/2010 | 480,000 | 554,400 |
| 14.0%, 12/15/2014 | 65,000 | 78,812 |
| Rural Cellular Corp., 9.875%, 2/1/2010 | 15,000 | 15,488 |
| SBA Telecom, Inc., Step-up Coupon, 0% to 12/15/2007, 9.75% to 12/15/2011 | 51,000 | 46,920 |
| SBC Communications, Inc., 6.15%, 9/15/2034 | 381,000 | 412,713 |
| Triton PCS, Inc., 8.5%, 6/1/2013 | 45,000 | 41,513 |
| Ubiquitel Operating Co., 9.875%, 3/1/2011 | 55,000 | 60,363 |
| US Unwired, Inc., Series B, 10.0%, 6/15/2012 | 105,000 | 116,812 |
| Western Wireless Corp., 9.25%, 7/15/2013 | 40,000 | 45,550 |
| | | **5,749,327** |

### Utilities 1.4%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| AES Corp., 144A, 8.75%, 5/15/2013 | 340,000 | 379,950 |
| Allegheny Energy Supply Co. LLC: | | |
| 144A, 8.25%, 4/15/2012 | 440,000 | 492,800 |
| 144A, 10.25%, 11/15/2007 | 180,000 | 198,000 |
| 144A, 13.0%, 11/15/2007 | 70,000 | 77,262 |
| Calpine Corp.: | | |
| 7.625%, 4/15/2006 | 60,000 | 56,250 |
| 144A, 8.5%, 7/15/2010 | 280,000 | 215,600 |
| CC Funding Trust I, 6.9%, 2/16/2007 | 179,000 | 186,444 |
| CMS Energy Corp.: | | |
| 8.5%, 4/15/2011 | 220,000 | 245,300 |
| 9.875%, 10/15/2007 | 350,000 | 381,500 |
| Consumers Energy Co.: | | |
| Series F, 4.0%, 5/15/2010 | 1,590,000 | 1,550,703 |
| 5.0%, 2/15/2012 | 975,000 | 991,071 |
| DPL, Inc., 6.875%, 9/1/2011 | 190,000 | 205,200 |
| Mission Energy Holding Co., 13.5%, 7/15/2008 | 590,000 | 700,625 |
| NorthWestern Corp., 144A, 5.875%, 11/1/2014 | 55,000 | 56,375 |
| NRG Energy, Inc., 144A, 8.0%, 12/15/2013 | 478,000 | 504,290 |
| Pedernales Electric Cooperative, Series 02-A, 144A, 6.202%, 11/15/2032 | 1,260,000 | 1,461,487 |
| Progress Energy, Inc., 6.75%, 3/1/2006 | 1,495,000 | 1,520,494 |
| PSE&G Energy Holdings LLC: | | |
| 8.5%, 6/15/2011 | 200,000 | 218,000 |
| 10.0%, 10/1/2009 | 345,000 | 387,263 |
| Tenaska Alabama Partners LP, 144A, 7.0%, 6/30/2021 | 100,000 | 101,250 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| TXU Energy Co., 7.0%, 3/15/2013 | 345,000 | 384,755 |
| | | **10,314,619** |
| **Total Corporate Bonds** (Cost $75,957,256) | | **76,049,381** |

## Foreign Bonds — US$ Denominated 5.4%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Consumer Discretionary 0.2%** | | |
| Jafra Cosmetics International, Inc., 10.75%, 5/15/2011 | 301,000 | 337,120 |
| Kabel Deutschland GmbH, 144A, 10.625%, 7/1/2014 | 215,000 | 233,275 |
| Shaw Communications, Inc., 8.25%, 4/11/2010 | 360,000 | 399,600 |
| Telenet Group Holding NV, 144A, Step-up Coupon, 0% to 12/15/2008, 11.5% to 6/15/2014 | 320,000 | 248,800 |
| Vitro Envases Norteamerica SA, 144A, 10.75%, 7/23/2011 | 25,000 | 24,250 |
| Vitro SA de CV, Series A, 144A, 11.75%, 11/1/2013 | 215,000 | 179,525 |
| | | **1,422,570** |
| **Consumer Staples 0.1%** | | |
| Burns Philp Capital Property Ltd., 10.75%, 2/15/2011 | 185,000 | 203,962 |
| Grupo Cosan SA, 144A, 9.0%, 11/1/2009 | 60,000 | 62,100 |
| | | **266,062** |
| **Energy 0.3%** | | |
| Luscar Coal Ltd., 9.75%, 10/15/2011 | 220,000 | 242,000 |
| OAO Gazprom, 144A, 9.625%, 3/1/2013 | 300,000 | 367,875 |
| Pemex Project Funding Master Trust: | | |
| 7.375%, 12/15/2014 | 90,000 | 100,935 |
| 8.0%, 11/15/2011 | 160,000 | 181,760 |
| 9.5%, 9/15/2027 | 240,000 | 315,600 |
| Petroleum Geo-Services ASA, 10.0%, 11/5/2010 | 684,002 | 766,082 |
| Secunda International Ltd., 11.141%**, 9/1/2012 | 145,000 | 141,375 |
| | | **2,115,627** |
| **Financials 1.7%** | | |
| Barclays Bank PLC, 1.0%, 12/15/2049 | 410,000 | 418,856 |
| ChinaTrust Commercial Bank, 144A, 5.625%, 12/29/2049 | 680,000 | 692,283 |
| Chuo Mitsui Trust & Banking Co., Ltd, 144A, 5.506%, 12/29/2049 | 795,000 | 781,029 |
| Conproca SA de CV, 12.0%, 6/16/2010 | 100,000 | 123,500 |
| Eircom Funding, 8.25%, 8/15/2013 | 155,000 | 168,175 |
| Mantis Reef Ltd., 144A, 4.692%, 11/14/2008 | 1,145,000 | 1,148,461 |
| Mizuho Financial Group, (Cayman), 8.375%, 4/27/2049 | 2,290,000 | 2,504,115 |
| National Capital Trust II, 144A, 5.486%, 12/29/2049 | 903,000 | 929,847 |
| New ASAT (Finance) Ltd., 9.25%, 2/1/2011 | 85,000 | 70,975 |
| Nordea Bank AB, 144A, 5.424%, 12/29/2049 | 810,000 | 834,212 |
| Pemex Finance Ltd., 9.03%, 2/15/2011 | 725,000 | 814,661 |
| QBE Insurance Group Ltd., 144A, 5.647%, 7/1/2023 | 535,000 | 547,165 |
| Royal Bank of Scotland Group PLC: | | |
| Series 3, 7.816%, 11/29/2049 | 1,045,000 | 1,065,576 |
| Series 1, 9.118%, 3/31/2049 | 50,000 | 59,547 |
| SPI Electricity & Gas Australia Holdings Property Ltd., 144A, 6.15%, 11/15/2013 | 905,000 | 988,633 |
| Westfield Capital Corp., 144A, 4.375%, 11/15/2010 | 1,105,000 | 1,103,275 |
| | | **12,250,310** |
| **Health Care 0.0%** | | |
| Biovail Corp., 7.875%, 4/1/2010 | 195,000 | **199,388** |
| **Industrials 0.3%** | | |
| CP Ships Ltd., 10.375%, 7/15/2012 | 210,000 | 235,200 |
| Grupo Transportacion Ferroviaria Mexicana SA de CV: | | |
| 144A, 9.375%, 5/1/2012 | 200,000 | 208,000 |
| 10.25%, 6/15/2007 | 365,000 | 390,550 |
| 12.5%, 6/15/2012 | 158,000 | 184,860 |
| J. Ray McDermott SA, 144A, 11.5%, 12/15/2013 | 155,000 | 173,600 |
| LeGrand SA, 8.5%, 2/15/2025 | 125,000 | 151,250 |
| Stena AB, 9.625%, 12/1/2012 | 115,000 | 125,350 |
| Tyco International Group SA, 7.0%, 6/15/2028 | 553,000 | 666,914 |
| | | **2,135,724** |
| **Materials 0.8%** | | |
| Alrosa Finance SA, 144A, 8.875%, 11/17/2014 | 115,000 | 129,950 |
| Cascades, Inc.: | | |
| 7.25%, 2/15/2013 | 235,000 | 229,712 |
| 144A, 7.25%, 2/15/2013 | 10,000 | 9,775 |
| Celulosa Arauco y Constitucion SA: | | |
| 144A, 5.625%, 4/20/2015 | 206,000 | 210,349 |
| 7.75%, 9/13/2011 | 875,000 | 996,901 |
| Crown Euro Holdings SA, 10.875%, 3/1/2013 | 105,000 | 123,375 |
| ISPAT Inland ULC, 9.75%, 4/1/2014 | 224,000 | 260,960 |
| Rhodia SA, 8.875%, 6/1/2011 | 460,000 | 442,750 |
| Sino-Forest Corp., 144A, 9.125%, 8/17/2011 | 10,000 | 10,925 |
| Sociedad Concesionaria Autopista Central, 144A, 6.223%, 12/15/2026 | 2,450,000 | 2,692,011 |
| Tembec Industries, Inc.: | | |
| 8.5%, 2/1/2011 | 700,000 | 540,750 |
| 8.625%, 6/30/2009 | 340,000 | 277,100 |
| | | **5,924,558** |
| **Sovereign Bonds 1.2%** | | |
| Aries Vermogensverwaltung GmbH, Series C, 9.6%, 10/25/2014 | 250,000 | 324,835 |
| Central Bank of Nigeria, Series WW, 6.25%, 11/15/2020 | 250,000 | 246,250 |
| Dominican Republic: | | |
| 9.04%, 1/23/2018 | 40,000 | 41,600 |
| 144A, 9.04%, 1/23/2018 | 30,000 | 31,275 |
| 9.5%, 9/27/2011 | 80,000 | 85,600 |
| Federative Republic of Brazil: | | |
| 8.875%, 10/14/2019 | 115,000 | 121,900 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| 9.25%, 10/22/2010 | 210,000 | 233,625 |
| 11.0%, 1/11/2012 | 270,000 | 320,625 |
| 11.0%, 8/17/2040 | 190,000 | 228,570 |
| Republic of Argentina, 8.28%, 12/31/2033 | 903,748 | 831,448 |
| Republic of Bulgaria, 8.25%, 1/15/2015 | 240,000 | 302,184 |
| Republic of Colombia: | | |
| 10.375%, 1/28/2033 | 40,000 | 47,700 |
| 10.75%, 1/15/2013 | 30,000 | 36,480 |
| Republic of Ecuador, Step-up Coupon, 8.0% to 8/15/2005, 9.0% to 8/15/2006, 10.0% to 8/15/2030 | 330,000 | 274,725 |
| Republic of Indonesia, 7.25%, 4/20/2015 | 200,000 | 203,000 |
| Republic of Panama, 9.375%, 1/16/2023 | 80,000 | 98,800 |
| Republic of Peru, 9.875%, 2/6/2015 | 70,000 | 86,625 |
| Republic of Philippines: | | |
| 9.375%, 1/18/2017 | 420,000 | 449,400 |
| 9.5%, 2/2/2030 | 130,000 | 132,665 |
| 9.875%, 1/15/2019 | 60,000 | 64,875 |
| Republic of Turkey: | | |
| 11.5%, 1/23/2012 | 230,000 | 293,825 |
| 11.75%, 6/15/2010 | 440,000 | 546,700 |
| 11.875%, 1/15/2030 | 160,000 | 231,400 |
| Republic of Uruguay: | | |
| 7.25%, 2/15/2011 | 40,000 | 40,000 |
| 9.25%, 5/17/2017 | 200,000 | 214,000 |
| Republic of Venezuela: | | |
| Series A, Collateralized Par Bond, 6.75%, 3/31/2020 | 250,000 | 250,625 |
| 9.25%, 9/15/2027 | 150,000 | 157,275 |
| 10.75%, 9/19/2013 | 125,000 | 146,313 |
| Russian Federation, Step-up Coupon, 5.0% to 3/31/2007, 7.5% to 3/31/2030 | 500,000 | 558,200 |
| Russian Ministry of Finance: | | |
| Series V, 3.0%, 5/14/2008 | 240,000 | 226,440 |
| Series VII, 3.0%, 5/14/2011 | 300,000 | 262,920 |
| United Mexican States: | | |
| Series A, 6.625%, 3/3/2015 | 130,000 | 143,065 |
| Series A, 6.75%, 9/27/2034 | 870,000 | 922,200 |
| 8.3%, 8/15/2031 | 40,000 | 49,800 |
| 8.375%, 1/14/2011 | 60,000 | 69,840 |
| 11.375%, 9/15/2016 | 30,000 | 44,550 |
| | | **8,319,335** |
| **Telecommunication Services 0.8%** | | |
| Alestra SA de RL de CV, 8.0%, 6/30/2010 | 65,000 | 58,500 |
| America Movil SA de CV, 5.75%, 1/15/2015 | 985,000 | 1,000,133 |
| Axtel SA, 11.0%, 12/15/2013 | 115,000 | 125,350 |
| British Telecommunications PLC, 8.875%, 12/15/2030 | 1,063,000 | 1,500,588 |
| Embratel, Series B, 11.0%, 12/15/2008 | 84,000 | 95,550 |
| Global Crossing UK Finance, 144A, 10.75%, 12/15/2014 | 165,000 | 149,737 |
| Intelsat Bermuda Ltd., 144A, 7.805%**, 1/15/2012 | 95,000 | 96,663 |
| Millicom International Cellular SA, 10.0%, 12/1/2013 | 295,000 | 293,525 |
| Mobifon Holdings BV, 12.5%, 7/31/2010 | 235,000 | 284,937 |
| Mobile Telesystems Financial, 144A, 8.375%, 10/14/2010 | 30,000 | 31,125 |
| Nortel Networks Corp., 6.875%, 9/1/2023 | 135,000 | 126,225 |
| Nortel Networks Ltd., 6.125%, 2/15/2006 | 535,000 | 538,344 |
| Telecom Italia Capital, 5.25%, 11/15/2013 | 820,000 | 832,468 |
| Telefonos de Mexico SA de CV, Series L, 144A, 4.75%, 1/27/2010 | 670,000 | 669,437 |
| | | **5,802,582** |
| **Utilities 0.0%** | | |
| Scottish Power PLC, 5.81%, 3/15/2025 | 170,000 | **175,465** |
| **Total Foreign Bonds — US$ Denominated** (Cost $37,642,268) | | **38,611,621** |

**Foreign Bonds — Non US$ Denominated 2.5%**

| | | Principal Amount ($)(g) | Value ($) |
|---|---|---|---|
| **Consumer Discretionary 0.0%** | | | |
| IESY Repository GMBH, 144A, 8.75%, 2/15/2015 | EUR | 110,000 | 124,464 |
| Victoria Acquisition III BV, 144A, 7.875%, 10/1/2014 | EUR | 130,000 | 143,160 |
| | | | **267,624** |
| **Industrials 0.0%** | | | |
| Grohe Holdings GmbH, 144A, 8.625%, 10/1/2014 | EUR | 135,000 | **151,526** |
| **Sovereign Bonds 2.5%** | | | |
| Federal Republic of Germany, 144A, 3.25%, 4/17/2009 | EUR | 3,140,000 | 3,929,640 |
| Government of Malaysia, 4.305%, 2/27/2009 | MYR | 4,920,000 | 1,337,037 |
| Mexican Bonds: | | | |
| Series M-20, 8.0%, 12/7/2023 | MXN | 2,480,000 | 196,142 |
| Series MI-10, 8.0%, 12/19/2013 | MXN | 38,283,500 | 3,282,522 |
| Series MI-10, 9.5%, 12/18/2014 | MXN | 16,433,000 | 1,536,681 |
| Series M-20, 10.0%, 12/5/2024 | MXN | 1,030,000 | 97,074 |
| Republic of Argentina: | | | |
| 5.83%, 12/31/2033 | ARS | 863,078 | 308,301 |
| 7.82%, 12/31/2033 | EUR | 237,339 | 256,627 |
| Republic of Colombia, 12.0%, 10/22/2015 | COP | 235,000,000 | 105,448 |
| Republic of Peru, 7.5%, 10/14/2014 | EUR | 70,000 | 95,299 |
| Republic of Uruguay, 10.5%, 10/20/2006 | UYU | 2,100,000 | 102,876 |
| United Kingdom Treasury Bonds, 5.0%, 9/7/2014 | GBP | 3,470,000 | 6,611,371 |
| | | | **17,859,018** |
| **Total Foreign Bonds — Non US$ Denominated** (Cost $18,138,522) | | | **18,278,168** |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Asset Backed 1.6%** | | |
| **Automobile Receivables 0.3%** | | |
| MMCA Automobile Trust: | | |
| "A4", Series 2002-4, 3.05%, 11/16/2009 | 644,505 | 640,229 |
| "A4", Series 2002-3, 3.57%, 8/17/2009 | 452,673 | 451,829 |
| "A4", Series 2002-2, 4.3%, 3/15/2010 | 328,826 | 328,660 |
| "B", Series 2002-2, 4.67%, 3/15/2010 | 75,452 | 75,318 |
| "B", Series 2002-1, 5.37%, 1/15/2010 | 327,711 | 328,548 |
| | | **1,824,584** |
| **Home Equity Loans 1.1%** | | |
| Advanta Mortgage Loan Trust, "A6", Series 2000-2, 7.72%, 3/25/2015 | 286,370 | 296,177 |
| Argent NIM Trust: | | |
| "A", Series 2004-WN10, 144A, 4.212%, 11/25/2034 | 117,947 | 117,726 |
| "A", Series 2004-WN2, 144A, 4.55%, 4/25/2034 | 99,153 | 99,122 |
| Centex Home Equity, "A6", Series 2000-B, 7.97%, 7/25/2031 | 357,464 | 357,992 |
| Countrywide Asset-Backed Certificates: | | |
| "AF2", Series 2005-7, 4.367%, 11/25/2035 | 1,365,000 | 1,364,997 |
| "N1", Series 2004-2N, 144A, 5.0%, 2/25/2035 | 349,031 | 346,837 |
| First Franklin Mortgage Loan Trust NIM, "N1", Series 2004-FFH4, 144A, 4.212%, 1/21/2035 | 280,618 | 280,618 |
| Long Beach Asset Holdings Corp., "N1", Series 2004-2, 144A, 4.94%, 6/25/2034 | 662,438 | 665,750 |
| Merrill Lynch Mortgage Investors, Inc., "N1", Series 2005-NC1N, 144A, 5.0%, 10/25/2035 | 59,941 | 59,941 |
| Park Place Securities NIM Trust: | | |
| "B", Series 2004-WHQ1, 144A, 3.483%, 9/25/2034 | 775,765 | 774,432 |
| "C", Series 2004-MHQ1, 144A, 4.458%, 12/25/2034 | 1,445,000 | 1,437,775 |
| Renaissance Home Equity Loan Trust, "AF6", Series 2005-2, 4.781%, 8/25/2035 | 450,000 | 450,000 |
| Residential Asset Securities Corp., "AI6", Series 2000-KS1, 7.905%, 2/25/2031 | 1,506,119 | 1,539,231 |
| | | **7,790,598** |
| **Industrials 0.2%** | | |
| Delta Air Lines, Inc., "G-2", Series 2002-1, 6.417%, 7/2/2012 | 480,000 | 504,983 |
| Northwest Airlines, "G", Series 1999-3, 7.935%, 4/1/2019 | 776,360 | 847,120 |
| | | **1,352,103** |
| **Manufactured Housing Receivables 0.0%** | | |
| Vanderbilt Acquisition Loan Trust, "A2", Series 2002-1, 4.77%, 10/7/2018 | 315,006 | **315,625** |
| **Total Asset Backed** (Cost $11,403,055) | | **11,282,910** |

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **US Government Agency Sponsored Pass-Throughs 1.6%** | | |
| Federal National Mortgage Association: | | |
| 4.5% with various maturities from 7/1/2018 until 10/1/2033 | 5,233,476 | 5,161,249 |
| 5.0%, 9/1/2033 | 1,570,000 | 1,570,000 |
| 5.115%, 1/1/2035 | 967,260 | 974,561 |
| 5.5% with various maturities from 1/1/2025 until 1/1/2034 | 1,391,573 | 1,412,903 |
| 6.0%, 1/1/2024 | 231,300 | 238,304 |
| 6.5% with various maturities from 5/1/2017 until 9/1/2034 | 1,493,909 | 1,547,475 |
| 7.13%, 1/1/2012 | 194,240 | 200,846 |
| 8.0%, 9/1/2015 | 310,585 | 332,185 |
| **Total US Government Agency Sponsored Pass-Throughs** (Cost $11,415,597) | | **11,437,523** |
| **US Government Backed 3.1%** | | |
| US Treasury Bills: | | |
| 2.598%***, 7/21/2005 (d) | 5,000 | 4,993 |
| 2.649%***, 7/21/2005 (d) | 135,000 | 134,805 |
| 2.869%***, 7/21/2005 (d) | 120,000 | 119,813 |
| US Treasury Bond, 6.0%, 2/15/2026 | 1,956,000 | 2,410,005 |
| US Treasury Note: | | |
| 3.0%, 12/31/2006 | 5,003,000 | 4,957,072 |
| 3.375%, 2/15/2008 | 8,500,000 | 8,438,239 |
| 3.625%, 7/15/2009 | 5,440,000 | 5,421,939 |
| 4.75%, 5/15/2014 | 613,000 | 650,451 |
| 5.0%, 8/15/2011 | 325,000 | 346,493 |
| **Total US Government Backed** (Cost $22,107,056) | | **22,483,810** |
| **Commercial and Non-Agency Mortgage-Backed Securities 3.6%** | | |
| Banc of America Commercial Mortgage, Inc.: | | |
| "A3", Series 2005-1, 4.877%, 11/10/2042 | 245,000 | 250,509 |
| "AJ", Series 2005-1, 5.153%**, 11/10/2042 | 825,000 | 860,700 |
| Banc of America Mortgage Securities, "2A6", Series 2004-G, 4.657%**, 8/25/2034 | 2,275,000 | 2,313,700 |
| Chase Mortgage Finance Corp., "2A1", Series 2004-S3, 5.25%, 3/25/2034 | 878,384 | 884,326 |
| Citigroup Mortgage Loan Trust, Inc., "1CB2", Series 2004-NCM2, 6.75%, 8/25/2034 | 513,309 | 533,039 |
| Countrywide Alternative Loan Trust: | | |
| "A1", Series 2004-1T1, 5.0%, 2/25/2034 | 1,270,673 | 1,267,641 |
| "A2", Series 2004-1T1, 5.5%, 2/25/2034 | 839,836 | 843,561 |
| "1A1", Series 2004-J1, 6.0%, 2/25/2034 | 499,727 | 505,579 |
| Countrywide Home Loans: | | |
| "1A6", Series 2003-1, 5.5%, 3/25/2033 | 161,481 | 161,366 |
| "A5", Series 2002-27, 5.5%, 12/25/2032 | 70,278 | 70,114 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| DLJ Mortgage Acceptance Corp., "A1B", Series 1997-CF2, 144A, 6.82%, 10/15/2030 | 165,001 | 172,343 |
| First Union-Lehman Brothers Commercial Mortgage, "A3", Series 1997-C1, 7.38%, 4/18/2029 | 1,199,903 | 1,244,469 |
| GMAC Commercial Mortgage Securities, Inc., "A3", Series 1997-C1, 6.869%, 7/15/2029 | 92,977 | 97,088 |
| Greenwich Capital Commercial Funding Corp.: | | |
| "AJ", Series 2005-GG3, 4.859%, 8/10/2042 | 605,000 | 614,203 |
| "B", Series 2005-GG3, 4.894%, 8/10/2042 | 1,010,000 | 1,021,048 |
| GS Mortgage Securities Corp. II: | | |
| "AJ", Series 2005-GG4, 4.782%, 7/10/2039 | 900,000 | 907,618 |
| "G", Series 2005-GG4, 5.449%, 144A 7/10/2039 | 906,000 | 912,216 |
| "C", Series 1998-C1, 6.91%, 10/18/2030 | 205,000 | 220,120 |
| LB-UBS Commercial Mortgage Trust: | | |
| "AM", Series 2005-C3, 4.794%, 7/15/2040 | 905,000 | 912,994 |
| "A2", Series 2005-C2, 4.821%, 4/15/2030 | 165,000 | 168,664 |
| Master Alternative Loans Trust: | | |
| "5A1", Series 2005-1, 5.5%, 1/25/2020 | 1,252,603 | 1,279,728 |
| "3A1", Series 2004-5, 6.5%, 6/25/2034 | 327,328 | 336,227 |
| "5A1", Series 2005-2, 6.5%, 12/25/2034 | 685,891 | 698,867 |
| "8A1", Series 2004-3, 7.0%, 4/25/2034 | 348,629 | 356,664 |
| Master Asset Securitization Trust, "8A1", Series 2003-6, 5.5%, 7/25/2033 | 1,095,679 | 1,102,870 |
| Mortgage Capital Funding, Inc., "A3", Series 1997-MC1, 7.288%, 7/20/2027 | 763,648 | 788,873 |
| Residential Asset Securities Corp., "AI", Series 2003-KS9, 4.71%, 3/25/2033 | 1,845,000 | 1,881,912 |
| Structured Asset Securities Corp.: | | |
| "4A1", Series 2005-6, 5.0%, 5/25/2035 | 202,125 | 203,486 |
| "2A1", Series 2003-1, 6.0%, 2/25/2018 | 162,157 | 165,158 |
| Washington Mutual: | | |
| "A6", Series 2004-AR4, 3.808%, 6/25/2034 | 190,000 | 186,956 |
| "A6", Series 2003-AR11, 3.985%, 10/25/2033 | 885,000 | 875,034 |
| "A6", Series 2003-AR10, 4.075%**, 10/25/2033 | 1,620,000 | 1,611,967 |
| "A7, Series 2004-AR9, 4.211%**, 8/25/2034 | 1,325,000 | 1,323,483 |
| "4A1", Series 2002-S7, 4.5%, 11/25/2032 | 45,697 | 45,610 |
| Wells Fargo Mortgage Backed Securities Trust, "2A14", Series 2005-AR10, 4.111%**, 6/25/2035 | 1,355,000 | 1,351,048 |
| **Total Commercial and Non-Agency Mortgage-Backed Securities** (Cost $26,202,212) | | **26,169,181** |

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| **Collateralized Mortgage Obligations 5.5%** | | |
| Fannie Mae Grantor Trust: | | |
| "1A3", Series 2004-T2, 7.0%, 11/25/2043 | 576,113 | 611,093 |
| "A2", Series 2002-T16, 7.0%, 7/25/2042 | 107,447 | 113,666 |
| Fannie Mae Whole Loan: | | |
| "3A2B", Series 2003-W10, 3.056%, 7/25/2037 | 958,469 | 952,042 |
| "1A3", Series 2004-W1, 4.49%, 11/25/2043 | 1,179,002 | 1,178,310 |
| "1A3", Series 2003-W18, 4.732%, 8/25/2043 | 192,200 | 192,202 |
| "1A1", Series 2004-W15, 6.0%, 8/25/2044 | 1,321,185 | 1,363,968 |
| "2A", Series 2003-W8, 7.0%, 10/25/2042 | 139,825 | 148,088 |
| "2A", Series 2002-W1, 7.5%, 2/25/2042 | 868,290 | 923,973 |
| "5A", Series 2004-W2, 7.5%, 3/25/2044 | 1,751,029 | 1,881,599 |
| Federal Home Loan Mortgage Corp.: | | |
| "YN", Series 2852, 3.75%, 6/15/2024 | 410,000 | 403,961 |
| "NB", Series 2750, 4.0%, 12/15/2022 | 1,558,000 | 1,547,768 |
| "ME", Series 2691, 4.5%, 4/15/2032 | 35,000 | 34,473 |
| "BG", Series 2640, 5.0%, 2/15/2032 | 510,000 | 511,463 |
| "BG", Series 2869, 5.0%, 7/15/2033 | 213,000 | 214,680 |
| "EG", Series 2836, 5.0%, 12/15/2032 | 455,000 | 455,141 |
| "JD", Series 2778, 5.0%, 12/15/2032 | 290,000 | 292,495 |
| "JG", Series 2937, 5.0%, 8/15/2033 | 1,705,000 | 1,703,356 |
| "KD", Series 2915, 5.0%, 9/15/2033 | 1,177,000 | 1,175,971 |
| "KG", Series 2987, 5.0%, 12/15/2034 | 1,360,000 | 1,358,244 |
| "ND", Series 2938, 5.0%, 10/15/2033 | 170,000 | 169,973 |
| "NE", Series 2802, 5.0%, 2/15/2033 | 460,000 | 461,142 |
| "OG", Series 2889, 5.0%, 5/15/2033 | 2,115,000 | 2,127,219 |
| "PD", Series 2893, 5.0%, 2/15/2033 | 370,000 | 372,946 |
| "PD", Series 2939, 5.0%, 7/15/2033 | 1,105,000 | 1,103,936 |
| "PE", Series 2898, 5.0%, 5/15/2033 | 1,715,000 | 1,723,093 |
| "QC", Series 2836, 5.0%, 9/15/2022 | 2,220,000 | 2,257,322 |
| "TE", Series 2780, 5.0%, 1/15/2033 | 1,685,000 | 1,689,561 |
| "XD", Series 2941, 5.0%, 5/15/2033 | 1,830,000 | 1,831,057 |
| "PE", Series 2512, 5.5%, 2/15/2022 | 420,000 | 438,185 |
| "BD", Series 2453, 6.0%, 5/15/2017 | 2,157,297 | 2,239,764 |
| "H", Series 2278, 6.5%, 1/15/2031 | 63,039 | 64,541 |
| "Z", Series 2173, 6.5%, 7/15/2029 | 80,649 | 84,212 |

*The accompanying notes are an integral part of the financial statements.*

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Federal National Mortgage Association: | | |
| "TU", Series 2003-122, 4.0%, 5/25/2016 | 350,000 | 350,104 |
| "NE", Series 2004-52, 4.5%, 7/25/2033 | 1,118,000 | 1,094,728 |
| "WB", Series 2003-106, 4.5%, 10/25/2015 | 1,870,000 | 1,876,230 |
| "A2", Series 2002-W10, 4.7%, 8/25/2042 | 3,742 | 3,731 |
| "1A3", Series 2003-W19, 4.783%, 11/25/2033 | 937,124 | 935,292 |
| "EG", Series 2005-22, 5.0%, 11/25/2033 | 1,042,000 | 1,042,219 |
| "PE", Series 2005-44, 5.0%, 7/25/2033 | 365,000 | 364,079 |
| "QD", Series 2005-29, 5.0%, 8/25/2033 | 760,000 | 759,544 |
| "PM", Series 2001-60, 6.0%, 3/25/2030 | 417,375 | 420,448 |
| "A1", Series 2002-93, 6.5%, 3/25/2032 | 338,845 | 347,299 |
| "HM", Series 2002-36, 6.5%, 12/25/2029 | 76,415 | 76,917 |
| "C", Series 1997-M5, 6.74%, 8/25/2007 | 390,000 | 408,094 |
| FHLMC Structured Pass-Through Securities, "3A", Series T-58, 7.0%, 9/25/2043 | 891,810 | 942,435 |
| Government National Mortgage Association, "PD", Series 2004-30, 5.0%, 2/20/2033 | 1,115,000 | 1,125,553 |
| **Total Collateralized Mortgage Obligations** (Cost $39,360,783) | | **39,372,117** |

## Municipal Bonds and Notes 1.7%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Brockton, MA, General Obligation, Economic Development Series A, 144A, 6.45%, 5/1/2017 (c) | 560,000 | 631,462 |
| Broward County, FL, Airport Revenue, Airport Systems Revenue Series J-2, 6.13%, 10/1/2007 (c) | 1,000,000 | 1,043,290 |
| Charlotte-Mecklenberg, NC, Hospital Authority, Health Care System Revenue, ETM 144A, 5.0%, 8/1/2015 | 510,000 | 529,926 |
| Hoboken, NJ, General Obligation, Series B, 3.8%, 1/1/2008 (c) | 270,000 | 268,350 |
| Illinois, Higher Education Revenue, Educational Facilities Authority Series C, 7.1%, 7/1/2012 (c) | 1,000,000 | 1,162,840 |
| Jersey City, NJ, Water & Sewer Revenue, Municipal Utilities Authority, Water Revenue, Series B, 4.91%, 5/15/2015 (c) | 385,000 | 395,876 |
| Jicarilla, NM, Sales & Special tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013 | 215,000 | 222,486 |
| Mashantucket, CT, Special Assessment Revenue, Western Pequot Tribe Special Revenue, Series A, 144A, 6.57%, 9/1/2013 (c) | 1,285,000 | 1,403,888 |
| Ohio, Sales & Special Tax Revenue, 7.6%, 10/1/2016 (c) | 1,000,000 | 1,057,740 |
| Passaic County, NJ, County General Obligation, 5.0%, 2/15/2017 (c) | 1,120,000 | 1,166,805 |
| Texas, American Campus Properties Student Housing Financing Ltd, 6.125%, 8/1/2023 (c) | 1,040,000 | 1,167,005 |
| Union County, NJ, Improvement Authority, Student Loan Revenue, 5.29%, 4/1/2018 (c) | 1,185,000 | 1,236,133 |
| Washington, State Economic Development Finance Authority Revenue, CSC Tocoma LLC Project, Series A, 3.5%, 10/1/2010 (c) | 1,840,000 | 1,774,459 |
| Yazoo County, MS, Sales & Special Tax Revenue, Series B, 4.3%, 9/1/2010 (c) | 355,000 | 357,240 |
| **Total Municipal Bonds and Notes** (Cost $12,050,882) | | **12,417,500** |

## Government National Mortgage Association 0.3%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Government National Mortgage Association, 6.0% with various maturities from 7/20/2034 until 8/20/2034 (Cost $2,378,357) | 2,362,478 | **2,433,308** |

## Warrants 0.0%

| | Shares | Value ($) |
|---|---|---|
| MircoStrategy, Inc.* | 96 | 15 |
| TravelCenters of America, Inc.* | 59,000 | 6 |
| **Total Warrants** (Cost $201) | | **21** |

## Preferred Stocks 0.1%

| | Shares | Value ($) |
|---|---|---|
| Paxson Communications Corp., 14.25% (PIK) | 29 | 186,606 |
| TNP Enterprises, Inc., 14.5%, "D" (PIK) | 163 | 184,598 |
| **Total Preferred Stocks** (Cost $408,637) | | **371,204** |

## Loan Participation 0.0%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Citigroup Global (Severstal), 8.625%, 2/24/2009 (Cost $55,411) | 55,000 | **56,573** |

## Other Investments 0.0%

| | Principal Amount ($)(g) | Value ($) |
|---|---|---|
| Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $195,725) | 270,000 | **210,600** |

## Closed End Investment Company 0.1%

| | Shares | Value ($) |
|---|---|---|
| Apollo Investment Corp. (Cost $445,014) | 27,400 | **504,983** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 0.0%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (e) (f) (Cost $75,600) | 75,600 | **75,600** |
| **Cash Equivalents 5.8%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $41,873,671) | 41,873,671 | **41,873,671** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $650,464,636) (a) | 99.8 | **719,623,470** |
| **Other Assets and Liabilities, Net** | 0.2 | **1,166,884** |
| **Net Assets** | 100.0 | **720,790,354** |

## Notes to Scudder Total Return Portfolio of Investments

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest. The following table represents bonds that are in default.*

| Security | Coupon | Maturity Date | Principal Amount | | Acquisition Cost ($) | | Value ($) |
|---|---|---|---|---|---|---|---|
| Congoleum Corp. | 8.625 | 8/1/2008 | 135,000 | USD | 135,225 | $ | 131,963 |
| Intermet Corp. | 9.75 | 6/15/2009 | 25,000 | USD | 10,250 | | 10,813 |
| Oxford Automotive, Inc. | 12.0 | 10/15/2010 | 269,573 | USD | 159,314 | | 134,786 |
| | | | | $ | **304,789** | $ | **277,562** |

** *Floating rate notes are securities whose yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury Bill rate. These securities are shown at their current rate as of June 30, 2005.*

*** *Annualized yield at time of purchase, not a coupon rate.*

(a) *The cost for federal income tax purposes was $657,035,577. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $62,587,893. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $75,826,389 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $13,238,496.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Bond is insured by one of these companies:*

| Insurance Coverage | As a % of Total Investment Portfolio |
|---|---|
| Ambac Financial Group | 0.5% |
| Financial Guaranty Insurance Company | 0.1% |
| Financial Security Assurance Inc. | 0.5% |
| MBIA Corp. | 0.5% |

(d) *At June 30, 2005, this security has been pledged to cover, in whole or part, initial margin requirements for open future contracts.*

(e) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(f) *Represents collateral held in connection with securities lending.*

(g) *Principal amount stated in US dollars unless otherwise noted.*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers.*

*ADR: American Depositary Receipt*

*PIK: Denotes that all or a portion of the income is paid in-kind.*

*REIT: Real Estate Investment Trust*

*Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp. and the Federal National Mortgage Association and the Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration Date | Contracts | Aggregate Face Value ($) | Value ($) | Unrealized Appreciation ($) |
|---|---|---|---|---|---|
| Russell 2000 Index | 9/15/2005 | 7 | 2,185,882 | 2,250,850 | 64,968 |

**Currency Abbreviations**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ARS | Argentine Peso | COP | Colombian Peso | EUR | Euro | GBP | British Pound |
| MXN | Mexican Peso | MYR | Malaysian Ringgit | UYU | Uruguyan Peso | | |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $608,515,365) — including $73,913 of securities loaned | $ | 677,674,199 |
| Investment in Scudder Daily Assets Fund Institutional (cost $75,600)* | | 75,600 |
| Investment in Scudder Cash Management QP Trust (cost $41,873,671) | | 41,873,671 |
| Total investments in securities, at value (cost $650,464,636) | | 719,623,470 |
| Cash | | 423,533 |
| Foreign currency, at value (cost $88,290) | | 87,912 |
| Receivable for investments sold | | 2,741,601 |
| Dividends receivable | | 371,137 |
| Interest receivable | | 3,232,023 |
| Receivable for Portfolio shares sold | | 2,878 |
| Unrealized appreciation on forward foreign currency exchange contracts | | 1,211,226 |
| Foreign taxes recoverable | | 2,660 |
| Other assets | | 15,886 |
| Total assets | | 727,712,326 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 5,033,013 |
| Payable for Portfolio shares redeemed | | 746,080 |
| Payable upon return of securities loaned | | 75,600 |
| Payable for daily variation margin on open futures contracts | | 4,755 |
| Net payable on closed forward foreign currency exchange contracts | | 4,361 |
| Unrealized depreciation on forward foreign currency exchange contracts | | 639,862 |
| Deferred mortgage dollar roll income | | 75 |
| Accrued management fee | | 280,004 |
| Other accrued expenses and payables | | 138,222 |
| Total liabilities | | 6,921,972 |
| **Net assets, at value** | **$** | **720,790,354** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 6,897,977 |
| Net unrealized appreciation (depreciation) on: Investments | | 69,158,834 |
| Futures | | 64,968 |
| Foreign currency related transactions | | 568,050 |
| Accumulated net realized gain (loss) | | (77,399,790) |
| Paid-in capital | | 721,500,315 |
| **Net assets, at value** | **$** | **720,790,354** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($687,393,462 ÷ 31,278,069 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **21.98** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($33,396,892 ÷ 1,518,612 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **21.99** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $38,504) | $ | 3,276,023 |
| Interest | | 6,855,112 |
| Interest — Scudder Cash Management QP Trust | | 373,047 |
| Mortgage dollar roll income | | 5,729 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 317 |
| Total Income | | 10,510,228 |
| Expenses: Management fee | | 1,678,911 |
| Custodian fees | | 54,830 |
| Distribution service fees (Class B) | | 40,693 |
| Record keeping fees (Class B) | | 20,325 |
| Auditing | | 22,701 |
| Legal | | 8,874 |
| Trustees' fees and expenses | | 9,056 |
| Reports to shareholders | | 45,532 |
| Other | | 12,836 |
| Total expenses, before expense reductions | | 1,893,758 |
| Expense reductions | | (3,286) |
| Total expenses, after expense reductions | | 1,890,472 |
| **Net investment income (loss)** | | **8,619,756** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: Investments | | 6,119,941 |
| Futures | | 103,881 |
| Foreign currency related transactions | | (290,431) |
| | | 5,933,391 |
| Net unrealized appreciation (depreciation) during the period on: Investments | | (7,300,589) |
| Futures | | 66,802 |
| Foreign currency related transactions | | 662,425 |
| | | (6,571,362) |
| **Net gain (loss) on investment transactions** | | **(637,971)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **7,981,785** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 8,619,756 | $ 14,447,088 |
| Net realized gain (loss) on investment transactions | 5,933,391 | 39,912,342 |
| Net unrealized appreciation (depreciation) during the period on investment and foreign currency transactions | (6,571,362) | (12,171,380) |
| Net increase (decrease) in net assets resulting from operations | 7,981,785 | 42,188,050 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (14,467,177) | (10,706,370) |
| Class B | (715,158) | (287,648) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 3,758,398 | 8,149,762 |
| Net assets acquired in tax freee reorganization | 118,997,707 | — |
| Reinvestment of distributions | 14,467,177 | 10,706,370 |
| Cost of shares redeemed | (64,728,042) | (94,301,996) |
| Net increase (decrease) in net assets from Class A share transactions | 72,495,240 | (75,445,864) |
| **Class B** | | |
| Proceeds from shares sold | 3,884,819 | 12,535,568 |
| Reinvestment of distributions | 715,158 | 287,648 |
| Cost of shares redeemed | (3,654,543) | (2,353,690) |
| Net increase (decrease) in net assets from Class B share transactions | 945,434 | 10,469,526 |
| **Increase (decrease) in net assets** | 66,240,124 | (33,782,306) |
| Net assets at beginning of period | 654,550,230 | 688,332,536 |
| Net assets at end of period (including undistributed net investment income of $6,897,977 and $13,460,556, respectively) | **$ 720,790,354** | **$ 654,550,230** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 27,789,320 | 31,305,397 |
| Shares sold | 173,611 | 380,053 |
| Shares issued in tax free reorganization | 5,591,767 | — |
| Shares issued to shareholders in reinvestment of distributions | 672,580 | 499,597 |
| Shares redeemed | (2,949,209) | (4,395,727) |
| Net increase (decrease) in Portfolio shares | 3,488,749 | (3,516,077) |
| Shares outstanding at end of period | **31,278,069** | **27,789,320** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,477,597 | 988,869 |
| Shares sold | 175,844 | 584,945 |
| Shares issued to shareholders in reinvestment of distributions | 33,201 | 13,398 |
| Shares redeemed | (168,030) | (109,615) |
| Net increase (decrease) in Portfolio shares | 41,015 | 488,728 |
| Shares outstanding at end of period | **1,518,612** | **1,477,597** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 22.37** | **$ 21.32** | **$ 18.66** | **$ 22.57** | **$ 25.91** | **$ 28.82** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[d] | .28 | .47 | .37 | .47 | .61 | .74 |
| Net realized and unrealized gain (loss) on investment transactions | (.12) | .93 | 2.90 | (3.81) | (2.20) | (1.40) |
| **Total from investment operations** | .16 | 1.40 | 3.27 | (3.34) | (1.59) | (.66) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.55) | (.35) | (.61) | (.57) | (.80) | (.90) |
| Net realized gains on investment transactions | — | — | — | — | (.95) | (1.35) |
| **Total distributions** | (.55) | (.35) | (.61) | (.57) | (1.75) | (2.25) |
| **Net asset value, end of period** | **$ 21.98** | **$ 22.37** | **$ 21.32** | **$ 18.66** | **$ 22.57** | **$ 25.91** |
| Total Return (%) | .77** | 6.64 | 18.10 | (15.17) | (6.09) | (2.63) |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 687 | 622 | 667 | 640 | 861 | 851 |
| Ratio of expenses (%) | .56* | .59 | .59 | .58 | .58 | .61 |
| Ratio of net investment income (loss) (%) | 2.55* | 2.18 | 1.88 | 2.32 | 2.63 | 2.75 |
| Portfolio turnover rate (%) | 151[e]* | 131[e] | 102[e] | 140 | 115 | 107 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *As required, effective January 1, 2001, the Portfolio adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. In addition, paydowns on mortgage-backed securities which were included in realized gain/loss on investment transactions prior to January 1, 2001 were included as interest income. The effect of this change for the year ended December 31, 2001 was to decrease net investment income per share by $.03, increase net realized and unrealized gains and losses per share by $.03 and decrease the ratio of net investment income to average net assets from 2.76% to 2.63%. Per share, ratios and supplemental data for periods prior to January 1, 2001 were not restated to reflect this change in presentation.*

[c] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[d] *Based on average shares outstanding during the period.*

[e] *The portfolio turnover rate including mortgage dollar roll transactions was 153%, 140% and 108% for the periods ended June 30, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 22.33** | **$ 21.28** | **$ 18.64** | **$ 19.46** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .24 | .39 | .28 | .18 |
| Net realized and unrealized gain (loss) on investment transactions | (.11) | .92 | 2.92 | (1.00) |
| **Total from investment operations** | .13 | 1.31 | 3.20 | (.82) |
| *Less distributions from:* | | | | |
| Net investment income | (.47) | (.26) | (.56) | — |
| **Net asset value, end of period** | **$ 21.99** | **$ 22.33** | **$ 21.28** | **$ 18.64** |
| Total Return (%) | .56** | 6.26 | 17.66 | (4.21)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 33 | 33 | 21 | .8 |
| Ratio of expenses (%) | .94* | .97 | .99 | .86* |
| Ratio of net investment income (loss) (%) | 2.17* | 1.80 | 1.48 | 1.96* |
| Portfolio turnover rate (%) | 151[d]* | 131[d] | 102[d] | 140 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

[d] *The portfolio turnover rate including mortgage dollar roll transactions was 153%, 140% and 108% for the periods ended June 30, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Annualized* ** *Not annualized*

## SVS Davis Venture Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,013.00 | $ 1,010.80 |
| Expenses Paid per $1,000* | $ 5.04 | $ 6.88 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.79 | $ 1,017.95 |
| Expenses Paid per $1,000* | $ 5.06 | $ 6.90 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS Davis Venture Value Portfolio | 1.01% | 1.38% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Davis Venture Value Portfolio

For the six months ended June 30, 2005, the portfolio returned 1.30% (Class A shares, unadjusted for contract charges), compared with its benchmark, the Russell 1000 Value Index, which had a return of 1.76%.

Important contributors to and detractors from the portfolio's performance relative to the Russell 1000 Value Index over the course of the six months ended June 30, 2005 include:

- Energy companies were the most important contributors to the portfolio's performance over the six-month period. All of the portfolio's energy companies performed well, with EOG Resources, ConocoPhillips, Occidental Petroleum and Devon Energy all among the portfolio's top 10 contributors to performance for the period.
- The portfolio's largest industry-group holdings were in insurance companies. Progressive and Loews were both among the portfolio's top 10 contributors to performance over the period, while American International Group and Berkshire Hathaway were both among the portfolio's top 10 detractors. Overall, the portfolio's insurance companies hurt performance over the six-month period.
- The portfolio also held a significant position in financial companies. As a group, these companies detracted from performance over the six-month period, with American Express and JPMorgan Chase included among the portfolio's top 10 detractors from performance.
- Individual companies making important contributions to the portfolio's performance over the period included HCA, a health care equipment and services company; Altria Group, a food, beverage and tobacco company; and H&R Block, a commercial services company.
- Individual companies detracting from performance over the period included Tyco International, an industrial conglomerate; Comcast, a media company; and Lexmark International, a computers and peripherals company.

Christopher C. Davis
Kenneth Charles Feinberg

Co-Managers
Davis Selected Advisers, L.P., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market and equity risks, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Russell 1000 Value Index is an unmanaged index which consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted-growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

*In this report Davis Selected Advisers makes candid statements and observations regarding economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. All investments involve some degree of risk, and there can be no assurance that the investment strategies will be successful. Market values will vary so that an investor may experience a gain or a loss.*

## SVS Davis Venture Value Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 94% |
| Cash Equivalents | 1% | 6% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 47% | 50% |
| Consumer Staples | 13% | 12% |
| Energy | 11% | 9% |
| Consumer Discretionary | 9% | 7% |
| Industrials | 8% | 9% |
| Health Care | 4% | 4% |
| Materials | 4% | 5% |
| Information Technology | 3% | 3% |
| Telecommunication Services | 1% | 1% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 138. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Davis Venture Value Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.9%** | | |
| **Consumer Discretionary 9.3%** | | |
| **Automobiles 0.7%** | | |
| Harley-Davidson, Inc. | 49,100 | **2,435,360** |
| **Diversified Consumer Services 1.9%** | | |
| H&R Block, Inc. (d) | 116,000 | **6,768,600** |
| **Household Durables 0.2%** | | |
| Hunter Douglas NV | 10,000 | **498,380** |
| **Internet & Catalog Retail 0.5%** | | |
| IAC/InterActiveCorp.* (d) | 67,800 | **1,630,590** |
| **Media 5.2%** | | |
| Comcast Corp. Special "A"* | 381,200 | 11,416,940 |
| Gannett Co., Inc. | 22,500 | 1,600,425 |
| Lagardere S.C.A. | 54,700 | 4,034,520 |
| WPP Group PLC (ADR) | 20,700 | 1,056,735 |
| | | **18,108,620** |
| **Specialty Retail 0.8%** | | |
| AutoZone, Inc.* (d) | 31,400 | **2,903,244** |
| **Consumer Staples 12.5%** | | |
| **Beverages 2.2%** | | |
| Diageo PLC (ADR) (d) | 83,300 | 4,939,690 |
| Heineken Holding NV | 98,200 | 2,745,128 |
| | | **7,684,818** |
| **Food & Staples Retailing 3.6%** | | |
| Costco Wholesale Corp. | 242,300 | 10,859,886 |
| Wal-Mart Stores, Inc. | 35,200 | 1,696,640 |
| | | **12,556,526** |
| **Food Products 1.0%** | | |
| The Hershey Co. | 58,100 | **3,608,010** |
| **Personal Products 0.3%** | | |
| Avon Products, Inc. | 22,600 | **855,410** |
| **Tobacco 5.4%** | | |
| Altria Group, Inc. | 290,600 | **18,790,196** |
| **Energy 11.0%** | | |
| **Energy Equipment & Services 0.8%** | | |
| Transocean, Inc.* | 53,600 | **2,892,792** |
| **Oil, Gas & Consumable Fuels 10.2%** | | |
| ConocoPhillips | 177,320 | 10,194,127 |
| Devon Energy Corp. | 165,600 | 8,392,608 |
| EOG Resources, Inc. | 140,800 | 7,997,440 |
| Occidental Petroleum Corp. | 116,300 | 8,946,959 |
| | | **35,531,134** |
| **Financials 46.2%** | | |
| **Banks 11.6%** | | |
| Fifth Third Bancorp (d) | 86,500 | 3,564,665 |
| Golden West Financial Corp. | 181,400 | 11,678,532 |
| HSBC Holdings PLC | 736,687 | 11,741,342 |
| Lloyds TSB Group PLC (ADR) (d) | 77,800 | 2,649,090 |
| Wells Fargo & Co. | 172,600 | 10,628,708 |
| | | **40,262,337** |
| **Capital Markets 0.9%** | | |
| Morgan Stanley | 47,500 | 2,492,325 |
| State Street Corp. | 15,500 | 747,875 |
| | | **3,240,200** |
| **Consumer Finance 6.7%** | | |
| American Express Co. | 372,100 | 19,806,883 |
| Providian Financial Corp.* | 71,200 | 1,255,256 |
| Takefuji Corp. | 37,900 | 2,558,683 |
| | | **23,620,822** |
| **Diversified Financial Services 8.2%** | | |
| Citigroup, Inc. | 216,700 | 10,018,041 |
| JPMorgan Chase & Co. | 361,384 | 12,764,083 |
| Moody's Corp. | 96,400 | 4,334,144 |
| Principal Financial Group, Inc. | 30,300 | 1,269,570 |
| | | **28,385,838** |
| **Insurance 17.2%** | | |
| American International Group, Inc. | 287,400 | 16,697,940 |
| Aon Corp. | 98,800 | 2,473,952 |
| Berkshire Hathaway, Inc. "B"* | 5,005 | 13,931,418 |
| Chubb Corp. | 13,100 | 1,121,491 |
| Loews Corp. | 89,100 | 6,905,250 |
| Markel Corp.* (d) | 900 | 305,100 |
| Marsh & McLennan Companies, Inc. | 107,900 | 2,988,830 |
| Progressive Corp. | 109,300 | 10,799,933 |
| Sun Life Financial, Inc. | 18,200 | 613,340 |
| Transatlantic Holdings, Inc. (d) | 72,237 | 4,032,269 |
| | | **59,869,523** |
| **Real Estate 1.6%** | | |
| CenterPoint Properties Corp. (REIT) | 131,600 | **5,566,680** |
| **Health Care 4.2%** | | |
| **Health Care Providers & Services 2.9%** | | |
| Cardinal Health, Inc. | 68,500 | 3,944,230 |
| Caremark Rx, Inc.* | 3,800 | 169,176 |
| HCA, Inc. | 109,200 | 6,188,364 |
| | | **10,301,770** |
| **Pharmaceuticals 1.3%** | | |
| Eli Lilly & Co. | 55,700 | 3,103,047 |
| Novartis AG (Registered) | 28,500 | 1,353,663 |
| | | **4,456,710** |
| **Industrials 8.1%** | | |
| **Air Freight & Logistics 0.7%** | | |
| United Parcel Service, Inc. "B" | 34,800 | **2,406,768** |
| **Commercial Services & Supplies 3.2%** | | |
| China Merchants Holdings International Co., Ltd | 585,224 | 1,135,145 |
| Cosco Pacific Ltd. | 500,000 | 968,315 |
| D&B Corp.* | 49,900 | 3,076,335 |
| Iron Mountain, Inc.* (d) | 157,500 | 4,885,650 |
| Rentokil Initial PLC | 446,600 | 1,271,579 |
| | | **11,337,024** |
| **Industrial Conglomerates 4.1%** | | |
| Tyco International Ltd. | 488,962 | **14,277,690** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Road & Rail 0.1%** | | |
| Kuehne & Nagel International AG (Registered) | 900 | **190,567** |
| **Information Technology 2.7%** | | |
| **Communications Equipment 0.3%** | | |
| Nokia Oyj (ADR) | 62,600 | **1,041,664** |
| **Computers & Peripherals 1.5%** | | |
| Hewlett-Packard Co. | 82,700 | 1,944,277 |
| Lexmark International, Inc. "A"* | 53,400 | 3,461,922 |
| | | **5,406,199** |
| **Software 0.9%** | | |
| Microsoft Corp. | 127,700 | **3,172,068** |
| **Materials 4.2%** | | |
| **Construction Materials 1.7%** | | |
| Martin Marietta Materials, Inc. | 42,500 | 2,937,600 |
| Vulcan Materials Co. (d) | 44,400 | 2,885,556 |
| | | **5,823,156** |
| **Containers & Packaging 2.5%** | | |
| Sealed Air Corp.* (d) | 175,900 | **8,758,061** |
| **Telecommunication Services 0.7%** | | |
| **Diversified Telecommunication Services 0.3%** | | |
| NTL, Inc.* (d) | 3,000 | 205,260 |
| Telewest Global, Inc.* | 37,900 | 863,362 |
| | | **1,068,622** |
| **Wireless Telecommunication Services 0.4%** | | |
| SK Telecom Co., Ltd. (ADR) (d) | 71,600 | **1,460,640** |
| **Total Common Stocks** (Cost $275,253,317) | | **344,910,019** |
| **Securities Lending Collateral 6.3%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (e) (Cost $21,890,878) | 21,890,878 | **21,890,878** |
| **Cash Equivalents 0.7%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $2,404,683) | 2,404,683 | **2,404,683** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $299,548,878) (a) | 105.9 | **369,205,580** |
| **Other Assets and Liabilities, Net** | (5.9) | **(20,728,923)** |
| **Net Assets** | 100.0 | **348,476,657** |

## Notes to SVS Davis Venture Value Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $300,360,801. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $68,844,779. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $75,703,384 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,858,605.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *All or a portion of these securities were on loan (see Notes to Financials Statements). The value of all securities loaned at June 30, 2005 amounted to $21,404,797, which is 6.1% of net assets.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*REIT: Real Estate Investment Trust*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $275,253,317) — including $21,404,797 of securities loaned | $ | 344,910,019 |
| Investment in Scudder Daily Assets Fund Institutional (cost $21,890,878)* | | 21,890,878 |
| Investment in Scudder Cash Management QP Trust (cost $2,404,683) | | 2,404,683 |
| Total investments in securities, at value (cost $299,548,878) | | 369,205,580 |
| Cash | | 3,486 |
| Foreign currency, at value (cost $317,649) | | 312,886 |
| Receivable for investments sold | | 2,577,194 |
| Dividends receivable | | 557,447 |
| Interest receivable | | 9,501 |
| Receivable for Portfolio shares sold | | 18,103 |
| Foreign taxes recoverable | | 9,118 |
| Other assets | | 11,288 |
| Total assets | | 372,704,603 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 1,879,003 |
| Payable upon return of securities loaned | | 21,890,878 |
| Payable for Portfolio shares redeemed | | 103,321 |
| Accrued management fee | | 266,397 |
| Other accrued expenses and payables | | 88,347 |
| Total liabilities | | 24,227,946 |
| **Net assets, at value** | **$** | **348,476,657** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 749,207 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 69,656,702 |
| Foreign currency related transactions | | (3,174) |
| Accumulated net realized gain (loss) | | (8,218,305) |
| Paid-in capital | | 286,292,227 |
| **Net assets, at value** | **$** | **348,476,657** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($278,460,314 ÷ 24,125,584 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.54** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($70,016,343 ÷ 6,066,196 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **11.54** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $92,970) | $ | 2,925,013 |
| Interest — Scudder Cash Management QP Trust | | 151,035 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 19,703 |
| Total Income | | 3,095,751 |
| Expenses: | | |
| Management fee | | 1,592,687 |
| Custodian and accounting fees | | 52,485 |
| Distribution service fees (Class B) | | 84,510 |
| Record keeping fees (Class B) | | 41,196 |
| Auditing | | 22,641 |
| Legal | | 8,117 |
| Trustee's fees and expenses | | 4,334 |
| Reports to shareholders | | 20,295 |
| Other | | 3,820 |
| Total expenses, before expense reductions | | 1,830,085 |
| Expense reductions | | (1,354) |
| Total expenses, after expense reductions | | 1,828,731 |
| **Net investment income (loss)** | | **1,267,020** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | (202,627) |
| Foreign currency related transactions | | (39,282) |
| | | (241,909) |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | 3,357,261 |
| Foreign currency related transactions | | (13,974) |
| | | 3,343,287 |
| **Net gain (loss) on investment transactions** | | **3,101,378** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **4,368,398** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 1,267,020 | $ 1,954,893 |
| Net realized gain (loss) on investment transactions | (241,909) | (1,157,982) |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 3,343,287 | 32,686,703 |
| Net increase (decrease) in net assets resulting from operations | 4,368,398 | 33,483,614 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (2,091,774) | (1,002,743) |
| Class B | (260,311) | (15,708) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 14,499,387 | 39,970,621 |
| Reinvestment of distributions | 2,091,774 | 1,002,743 |
| Cost of shares redeemed | (8,071,131) | (19,163,185) |
| Net increase (decrease) in net assets from Class A share transactions | 8,520,030 | 21,810,179 |
| **Class B** | | |
| Proceeds from shares sold | 6,224,039 | 32,936,634 |
| Reinvestment of distributions | 260,311 | 15,708 |
| Cost of shares redeemed | (3,081,884) | (2,151,840) |
| Net increase (decrease) in net assets from Class B share transactions | 3,402,466 | 30,800,502 |
| **Increase (decrease) in net assets** | 13,938,809 | 85,075,844 |
| Net assets at beginning of period | 334,537,848 | 249,462,004 |
| Net assets at end of period (including undistributed net investment income of $749,207 and $1,834,272, respectively) | **$ 348,476,657** | **$ 334,537,848** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 23,386,408 | 21,351,155 |
| Shares sold | 1,267,012 | 3,746,952 |
| Shares issued to shareholder in reinvestment of distributions | 184,135 | 93,978 |
| Shares redeemed | (711,971) | (1,805,677) |
| Net increase (decrease) in Portfolio shares | 739,176 | 2,035,253 |
| Shares outstanding at end of period | **24,125,584** | **23,386,408** |
| **Class B** | | |
| Shares outstanding at beginning of period | 5,765,180 | 2,848,268 |
| Shares sold | 546,547 | 3,116,302 |
| Shares issued to shareholder in reinvestment of distributions | 22,894 | 1,471 |
| Shares redeemed | (268,425) | (200,861) |
| Net increase (decrease) in Portfolio shares | 301,016 | 2,916,912 |
| Shares outstanding at end of period | **6,066,196** | **5,765,180** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 11.48** | **$ 10.31** | **$ 7.99** | **$ 9.50** | **$ 10.00** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[c] | .05 | .08 | .06 | .05 | .03 |
| Net realized and unrealized gain (loss) on investment transactions | .10 | 1.14 | 2.31 | (1.55) | (.53) |
| **Total from investment operations** | .15 | 1.22 | 2.37 | (1.50) | (.50) |
| *Less distributions from:* | | | | | |
| Net investment income | (.09) | (.05) | (.05) | (.01) | — |
| **Net asset value, end of period** | **$ 11.54** | **$ 11.48** | **$ 10.31** | **$ 7.99** | **$ 9.50** |
| Total Return (%) | 1.30** | 11.83 | 29.84 | (15.79) | (5.00)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 278 | 268 | 220 | 160 | 109 |
| Ratio of expenses (%) | 1.01* | 1.05 | 1.01 | 1.02 | 1.09* |
| Ratio of net investment income (loss) (%) | .82* | .74 | .62 | .62 | .48* |
| Portfolio turnover rate (%) | 2* | 3 | 7 | 22 | 15* |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period from May 1, 2001 (commencement of operations) to December 31, 2001.*
[c] *Based on average shares outstanding during the period.*
* *Annualized*
** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 11.46** | **$ 10.29** | **$ 7.98** | **$ 8.52** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .03 | .04 | .02 | .04 |
| Net realized and unrealized gain (loss) on investment transactions | .09 | 1.13 | 2.32 | (.58) |
| **Total from investment operations** | .12 | 1.17 | 2.34 | (.54) |
| *Less distributions from:* | | | | |
| Net investment income | (.04) | —*** | (.03) | — |
| **Net asset value, end of period** | **$ 11.54** | **$ 11.46** | **$ 10.29** | **$ 7.98** |
| Total Return (%) | 1.08** | 11.42 | 29.42 | (6.34)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 70 | 66 | 29 | .8 |
| Ratio of expenses (%) | 1.38* | 1.44 | 1.40 | 1.27* |
| Ratio of net investment income (loss) (%) | .45* | .36 | .23 | 1.06* |
| Portfolio turnover rate (%) | 2* | 3 | 7 | 22 |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
[c] *Based on average shares outstanding during the period.*
* *Annualized*
** *Not annualized*
*** *Amount is less than $.005.*

## SVS Dreman Financial Services Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 954.30 | $ 952.80 |
| Expenses Paid per $1,000* | $ 4.26 | $ 6.10 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.43 | $ 1,018.55 |
| Expenses Paid per $1,000* | $ 4.41 | $ 6.31 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS Dreman Financial Services Portfolio | .88% | 1.26% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Dreman Financial Services Portfolio

During the first six months of 2005, the US stock market exhibited considerable volatility as investors reacted to economic news that was somewhat contradictory. At the end of June, the S&P 500 Index was close to its level at the beginning of the year; the total return of the index for the six-month period was –0.81%. Financial services stocks in general underperformed the broad market: The return of the S&P Financial Index was –2.33%.

The portfolio returned –4.57% for the six-month period ended June 30, 2005 (Class A shares, unadjusted for contract charges). Performance of our portfolio was disappointing because of negative events specific to three of the portfolio's top 10 holdings, Freddie Mac, Fannie Mae and American International Group, Inc. (AIG). Fannie Mae and Freddie Mac, which are government-sponsored enterprises that operate mainly in the residential mortgage business, have been the subject of negative publicity because they have had to restate earnings. We believe that their growth models are still credible, and we continue to hold significant positions in the stocks. AIG and two former executives are accused of manipulating financial statements and misleading regulators and investors. We believe that this leading international insurance and financial services firm will soon move beyond this scandal, and we expect that the company will grow more rapidly than the insurance industry at large.

Good news for the portfolio and sector as a whole was supplied by the insurance industry and capital markets companies. Holdings such as Allstate Corp., Chubb Corp., Prudential Financial, Inc., Franklin Resources, Inc. and Lehman Brothers Holdings, Inc. provided double-digit returns for the period.

The portfolio is positioned defensively at this time, a decision we consider appropriate in light of the uncertainty surrounding economic growth, inflation and interest rates. Because it seems likely that interest rates will rise, we are avoiding the areas of financial services that are most sensitive to rising interest rates and are concentrating on areas where we see more attractive risk/reward prospects. These include companies with substantial fee-based revenues and those with exposure to the improving commercial and industrial lending environment.

David N. Dreman F. James Hutchinson

Lead Manager Portfolio Manager
Dreman Value Management, L.L.C., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. It may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Additionally, this portfolio is nondiversified and can take larger positions in fewer companies, increasing its overall potential risk. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Standard & Poor's (S&P) Financial Index is an unmanaged index generally representative of the financial stock market. The Standard & Poor's (S&P) 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Dreman Financial Services Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Banks | 43% | 45% |
| Diversified Financial Services | 28% | 28% |
| Insurance | 13% | 13% |
| Capital Markets | 12% | 9% |
| Consumer Finance | 3% | 5% |
| Real Estate | 1% | — |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 146. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman Financial Services Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 99.8%** | | |
| **Financials 99.8%** | | |
| **Banks 43.1%** | | |
| Bank of America Corp. | 257,720 | 11,754,609 |
| Fifth Third Bancorp. | 50,200 | 2,068,742 |
| Hudson City Bancorp., Inc. | 43,000 | 490,630 |
| Independence Community Bank Corp. | 15,500 | 572,415 |
| KeyCorp | 175,355 | 5,813,018 |
| Marshall & Ilsley Corp. | 50,600 | 2,249,170 |
| Mercantile Bankshares Corp. | 13,700 | 705,961 |
| National Bank of Canada | 98,350 | 4,367,633 |
| National City Corp. | 78,931 | 2,693,126 |
| PNC Financial Services Group | 60,140 | 3,275,224 |
| Regions Financial Corp. | 74,672 | 2,529,887 |
| Sovereign Bancorp, Inc. | 113,075 | 2,526,096 |
| US Bancorp. | 177,420 | 5,180,664 |
| Wachovia Corp. | 80,040 | 3,969,984 |
| Washington Mutual, Inc. | 265,732 | 10,812,635 |
| Wells Fargo & Co. | 45,610 | 2,808,664 |
| | | **61,818,458** |
| **Capital Markets 12.0%** | | |
| Bear Stearns Companies, Inc. | 20,340 | 2,114,140 |
| Franklin Resources, Inc. | 20,610 | 1,586,558 |
| Lehman Brothers Holdings, Inc. | 20,400 | 2,025,312 |
| Mellon Financial Corp. | 109,700 | 3,147,293 |
| Morgan Stanley | 113,780 | 5,970,036 |
| The Goldman Sachs Group, Inc. | 23,200 | 2,366,864 |
| | | **17,210,203** |
| **Consumer Finance 3.0%** | | |
| American Express Co. | 80,850 | **4,303,646** |
| **Diversified Financial Services 28.0%** | | |
| CIT Group, Inc. | 63,990 | 2,749,650 |
| Citigroup, Inc. | 128,400 | 5,935,932 |
| Fannie Mae | 127,380 | 7,438,992 |
| Freddie Mac | 232,405 | 15,159,778 |
| Friedman, Billings, Ramsey Group, Inc. "A" (c) | 119,600 | 1,710,280 |
| JPMorgan Chase & Co. | 154,024 | 5,440,128 |
| The PMI Group, Inc. | 44,700 | 1,742,406 |
| | | **40,177,166** |
| **Insurance 12.5%** | | |
| Allstate Corp. | 37,595 | 2,246,301 |
| American International Group, Inc. | 217,373 | 12,629,371 |
| Chubb Corp. | 22,630 | 1,937,354 |
| Prudential Financial, Inc. | 17,990 | 1,181,224 |
| | | **17,994,250** |
| **Real Estate 1.2%** | | |
| Novastar Financial, Inc. (REIT) (c) | 45,000 | **1,761,750** |
| **Total Common Stocks** (Cost $117,571,944) | | **143,265,473** |
| **Securities Lending Collateral 2.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (b) (d) (Cost $3,062,000) | 3,062,000 | **3,062,000** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $120,633,944) (a) | 102.0 | **146,327,473** |
| **Other Assets and Liabilities, Net** | (2.0) | **(2,813,533)** |
| **Net Assets** | 100.0 | **143,513,940** |

### Notes to SVS Dreman Financial Services Portfolio of Investments

*(a) The cost for federal income tax purposes was $121,181,871. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $25,145,602 This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $30,621,942 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,476,340.*

*(b) Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

*(c) A portion of this security was on loan. The value of the security loaned at June 30, 2005 amounted to $2,995,163, which is 2.1% of net assets.*

*(d) Represents collateral held in connection with securities lending.*

*REIT: Real Estate Investment Trust*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $117,571,944) — including $2,995,163 of securities loaned | $ | 143,265,473 |
| Investment in Scudder Daily Assets Fund Institutional (cost $3,062,000)* | | 3,062,000 |
| Total investments in securities, at value (cost $120,633,944) | | 146,327,473 |
| Cash | | 10,971 |
| Receivable for investments sold | | 425,581 |
| Dividends receivable | | 177,464 |
| Interest receivable | | 12,377 |
| Receivable for Portfolio shares sold | | 11,460 |
| Other assets | | 6,027 |
| Total assets | | 146,971,353 |
| **Liabilities** | | |
| Payable for Portfolio shares redeemed | | 111,626 |
| Notes payable | | 150,000 |
| Payable upon return of securities loaned | | 3,062,000 |
| Accrued management fee | | 85,144 |
| Other accrued expenses and payables | | 48,643 |
| Total liabilities | | 3,457,413 |
| **Net assets, at value** | **$** | **143,513,940** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 1,431,157 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 25,693,529 |
| Foreign currency related transactions | | 138 |
| Accumulated net realized gain (loss) | | (187,738) |
| Paid-in capital | | 116,576,854 |
| **Net assets, at value** | **$** | **143,513,940** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($126,458,780 ÷ 9,931,216 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.73** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($17,055,160 ÷ 1,339,523 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.73** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends (net of foreign taxes withheld of $12,877) | $ | 2,077,981 |
| Interest — Scudder Cash Management QP Trust | | 734 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 74,267 |
| Total Income | | 2,152,982 |
| Expenses: | | |
| Management fee | | 551,613 |
| Custodian and accounting fees | | 36,483 |
| Distribution service fees (Class B) | | 20,707 |
| Record keeping fees (Class B) | | 10,563 |
| Auditing | | 21,324 |
| Legal | | 7,378 |
| Trustees' fees and expenses | | 1,854 |
| Reports to shareholders | | 16,531 |
| Interest expense | | 3,434 |
| Other | | 6,666 |
| Total expenses, before expense reductions | | 676,553 |
| Expense reductions | | (750) |
| Total expenses, after expense reductions | | 675,803 |
| **Net investment income (loss)** | | **1,477,179** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 6,115,527 |
| Foreign currency related transactions | | (1,694) |
| | | 6,113,833 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (15,072,736) |
| Foreign currency related transactions | | (1,420) |
| | | (15,074,156) |
| **Net gain (loss) on investment transactions** | | **(8,960,323)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(7,483,144)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 1,477,179 | $ 2,737,075 |
| Net realized gain (loss) on investment transactions | 6,113,833 | 1,313,816 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (15,074,156) | 13,545,556 |
| Net increase (decrease) in net assets resulting from operations | (7,483,144) | 17,596,447 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (2,459,642) | (2,233,509) |
| Class B | (250,229) | (138,571) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 1,859,044 | 9,238,024 |
| Reinvestment of distributions | 2,459,642 | 2,233,509 |
| Cost of shares redeemed | (13,474,191) | (23,157,778) |
| Net increase (decrease) in net assets from Class A share transactions | (9,155,505) | (11,686,245) |
| **Class B** | | |
| Proceeds from shares sold | 1,487,816 | 7,389,810 |
| Reinvestment of distributions | 250,229 | 138,571 |
| Cost of shares redeemed | (1,021,957) | (1,105,504) |
| Net increase (decrease) in net assets from Class B share transactions | 716,088 | 6,422,877 |
| **Increase (decrease) in net assets** | (18,632,432) | 9,960,999 |
| Net assets at beginning of period | 162,146,372 | 152,185,373 |
| Net assets at end of period (including undistributed net investment income of $1,431,157 and $2,663,849, respectively) | **$ 143,513,940** | **$ 162,146,372** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 10,645,952 | 11,569,224 |
| Shares sold | 145,162 | 730,584 |
| Shares issued to shareholders in reinvestment of distributions | 200,134 | 176,982 |
| Shares redeemed | (1,060,032) | (1,830,838) |
| Net increase (decrease) in Portfolio shares | (714,736) | (923,272) |
| Shares outstanding at end of period | **9,931,216** | **10,645,952** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,281,273 | 771,080 |
| Shares sold | 117,446 | 586,845 |
| Shares issued to shareholders in reinvestment of distributions | 20,344 | 10,971 |
| Shares redeemed | (79,540) | (87,623) |
| Net increase (decrease) in Portfolio shares | 58,250 | 510,193 |
| Shares outstanding at end of period | **1,339,523** | **1,281,273** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 13.60** | **$ 12.33** | **$ 9.79** | **$ 10.78** | **$ 11.53** | **$ 9.24** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .13 | .23 | .20 | .15 | .14 | .19 |
| Net realized and unrealized gain (loss) on investment transactions | (.76) | 1.23 | 2.50 | (1.06) | (.71) | 2.27 |
| **Total from investment operations** | (.63) | 1.46 | 2.70 | (.91) | (.57) | 2.46 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.24) | (.20) | (.16) | (.08) | (.13) | (.15) |
| Net realized gains on investment transactions | — | — | — | — | (.05) | (.02) |
| **Total distributions** | (.24) | (.20) | (.16) | (.08) | (.18) | (.17) |
| **Net asset value, end of period** | **$ 12.73** | **$ 13.60** | **$ 12.33** | **$ 9.79** | **$ 10.78** | **$ 11.53** |
| Total Return (%) | (4.57)** | 12.00 | 28.13 | (8.51) | (4.86) | 27.04[d] |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 126 | 145 | 143 | 120 | 117 | 66 |
| Ratio of expenses before expense reductions (%) | .88* | .84 | .86 | .83 | .86 | .91 |
| Ratio of expenses after expense reductions (%) | .88* | .84 | .86 | .83 | .86 | .89 |
| Ratio of net investment income (loss) (%) | 2.05* | 1.79 | 1.84 | 1.44 | 1.31 | 2.01 |
| Portfolio turnover rate (%) | 24* | 8 | 7 | 13 | 22 | 13 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 13.57** | **$ 12.31** | **$ 9.78** | **$ 10.57** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .11 | .18 | .14 | .06 |
| Net realized and unrealized gain (loss) on investment transactions | (.76) | 1.22 | 2.53 | (.85) |
| **Total from investment operations** | (.65) | 1.40 | 2.67 | (.79) |
| *Less distributions from:* | | | | |
| Net investment income | (.19) | (.14) | (.14) | — |
| **Net asset value, end of period** | **$ 12.73** | **$ 13.57** | **$ 12.31** | **$ 9.78** |
| Total Return (%) | (4.72)** | 11.50 | 27.73 | (7.47)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 17 | 17 | 9 | .4 |
| Ratio of expenses (%) | 1.26* | 1.22 | 1.25 | 1.08* |
| Ratio of net investment income (loss) (%) | 1.67* | 1.41 | 1.45 | 1.33* |
| Portfolio turnover rate (%) | 24* | 8 | 7 | 13 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized* ** *Not annualized*

*The accompanying notes are an integral part of the financial statements.*

## SVS Dreman High Return Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,024.40 | $ 1,022.90 |
| Expenses Paid per $1,000* | $ 3.86 | $ 5.77 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.98 | $ 1,019.09 |
| Expenses Paid per $1,000* | $ 3.86 | $ 5.76 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — SVS Dreman High Return Equity Portfolio | .77% | 1.15% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Dreman High Return Equity Portfolio

During the first six months of 2005 the US stock market exhibited considerable volatility as investors reacted to economic news that was somewhat contradictory. At the end of June, the S&P 500 Index was close to its level at the beginning of the year; the total return of the index for the six-month period was –0.81%. The portfolio returned 2.44% (Class A shares, unadjusted for contract charges).

The most significant positive factor by far was a major overweight in energy stocks, which performed well. We initiated this overweight position approximately 18 months ago, and then at the end of 2004, when oil prices fell somewhat, we took advantage of the drop in prices of oil stocks to significantly increase the overweight. Energy holdings that contributed significantly to performance include Devon Energy Corp., ConocoPhillips, ChevronTexaco Corp. and Occidental Petroleum Corp. Also, we realized a significant gain on a portion of our holding in Kerr-McGee Corp. by taking advantage of an opportunity to tender shares.

Also positive for performance was our holding in tobacco stock Altria Group, Inc. (our largest position). This stock has risen in response to suggestions that a split-up of the company is increasingly likely because the risk of significant monetary damages from pending litigation has declined. Health care holdings, which have hurt performance in past periods, performed better in recent months. In this industry group, pharmaceutical stocks such as Bristol-Myers Squibb Co., Wyeth; Pfizer, Inc., and Merck & Co., Inc., recovered from weakness during 2004, when patent challenges and regulatory scrutiny depressed the sector. Performance was hurt by an overweight in financials and particularly by three large holdings — Freddie Mac, Fannie Mae and American International Group. While these companies have problems, we believe that all are financially sound companies with good growth prospects, and we continue to hold them in the portfolio.

We believe the portfolio is positioned appropriately for a time of uncertainty in the economy and markets. We have confidence in our time-tested investing philosophy of seeking companies that are financially sound and that have solid growth prospects but have fallen out of favor with the investing public.

David N. Dreman
F. James Hutchinson

Co-Managers
Dreman Value Management L.L.C., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding this product's investments and risk profile.

*The Standard & Poor's 500 (S&P 500) Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Dreman High Return Equity Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 92% | 92% |
| Cash Equivalents | 8% | 8% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Financials | 30% | 34% |
| Consumer Staples | 20% | 21% |
| Energy | 20% | 14% |
| Health Care | 18% | 17% |
| Consumer Discretionary | 7% | 8% |
| Information Technology | 3% | 3% |
| Industrials | 2% | 3% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 153. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman High Return Equity Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 91.3%** | | |
| **Consumer Discretionary 6.4%** | | |
| **Automobiles 0.4%** | | |
| Ford Motor Co. | 345,000 | **3,532,800** |
| **Multiline Retail 1.1%** | | |
| Federated Department Stores, Inc. | 129,505 | **9,490,126** |
| **Specialty Retail 4.9%** | | |
| Borders Group, Inc. | 712,900 | 18,043,499 |
| Home Depot, Inc. | 388,455 | 15,110,900 |
| Staples, Inc. | 501,247 | 10,686,586 |
| | | **43,840,985** |
| **Consumer Staples 18.7%** | | |
| **Food & Staples Retailing 0.6%** | | |
| Safeway, Inc.* | 232,650 | **5,255,563** |
| **Tobacco 18.1%** | | |
| Altria Group, Inc. | 1,349,420 | 87,253,497 |
| Imperial Tobacco Group (ADR) | 95,145 | 5,176,840 |
| Reynolds American, Inc. (c) | 249,173 | 19,634,832 |
| Universal Corp. | 266,570 | 11,670,435 |
| UST, Inc. | 816,640 | 37,287,782 |
| | | **161,023,386** |
| **Energy 17.8%** | | |
| **Energy Equipment & Services 0.1%** | | |
| Transocean, Inc.* | 22,400 | **1,208,928** |
| **Oil, Gas & Consumable Fuels 17.7%** | | |
| Anadarko Petroleum Corp. | 47,500 | 3,902,125 |
| Apache Corp. | 147,100 | 9,502,660 |
| Burlington Resources, Inc. | 163,500 | 9,031,740 |
| ChevronTexaco Corp. | 562,860 | 31,475,131 |
| ConocoPhillips | 931,646 | 53,560,329 |
| Devon Energy Corp. | 514,600 | 26,079,928 |
| El Paso Corp. | 846,510 | 9,751,795 |
| EnCana Corp. | 66,200 | 2,620,858 |
| Kerr-McGee Corp. | 2,928 | 223,436 |
| Occidental Petroleum Corp. | 148,700 | 11,439,491 |
| | | **157,587,493** |
| **Financials 27.3%** | | |
| **Banks 11.6%** | | |
| Bank of America Corp. | 521,636 | 23,791,818 |
| KeyCorp | 294,000 | 9,746,100 |
| PNC Financial Services Group | 169,300 | 9,220,078 |
| Sovereign Bancorp, Inc. | 493,600 | 11,027,024 |
| US Bancorp. | 265,700 | 7,758,440 |
| Wachovia Corp. | 140,000 | 6,944,000 |
| Washington Mutual, Inc. | 854,175 | 34,756,381 |
| | | **103,243,841** |
| **Capital Markets 0.0%** | | |
| Piper Jaffray Companies, Inc.* | 1,071 | **32,590** |
| **Diversified Financial Services 13.2%** | | |
| CIT Group, Inc. | 89,100 | 3,828,627 |
| Citigroup, Inc. | 134,600 | 6,222,558 |
| Fannie Mae | 652,073 | 38,081,063 |
| Freddie Mac | 1,000,341 | 65,252,243 |
| JPMorgan Chase & Co. | 132,864 | 4,692,757 |
| | | **118,077,248** |
| **Insurance 2.5%** | | |
| American International Group, Inc. | 331,300 | 19,248,530 |
| The St. Paul Travelers Companies, Inc. | 70,605 | 2,791,016 |
| | | **22,039,546** |
| **Health Care 16.4%** | | |
| **Health Care Equipment & Supplies 0.7%** | | |
| Becton, Dickinson & Co. | 111,555 | **5,853,291** |
| **Health Care Providers & Services 9.9%** | | |
| AmerisourceBergen Corp. | 218,000 | 15,074,700 |
| Cardinal Health, Inc. | 119,400 | 6,875,052 |
| HCA, Inc. | 296,200 | 16,785,654 |
| Laboratory Corp. of America Holdings* | 343,075 | 17,119,443 |
| Medco Health Solutions, Inc.* | 316,434 | 16,884,918 |
| Quest Diagnostics, Inc. | 291,100 | 15,506,897 |
| | | **88,246,664** |
| **Pharmaceuticals 5.8%** | | |
| Bristol-Myers Squibb Co. | 875,560 | 21,871,489 |
| Merck & Co., Inc. | 360,195 | 11,094,006 |
| Pfizer, Inc. | 479,530 | 13,225,437 |
| Schering-Plough Corp. | 134,905 | 2,571,289 |
| Wyeth | 75,775 | 3,371,988 |
| | | **52,134,209** |
| **Industrials 2.2%** | | |
| **Industrial Conglomerates** | | |
| General Electric Co. | 209,350 | 7,253,977 |
| Tyco International Ltd. | 415,005 | 12,118,146 |
| | | **19,372,123** |
| **Information Technology 2.5%** | | |
| **IT Consulting & Services** | | |
| Electronic Data Systems Corp. | 1,147,840 | **22,095,920** |
| **Utilities 0.0%** | | |
| **Gas Utilities** | | |
| NiSource, Inc. | 5,303 | **131,143** |
| **Total Common Stocks** (Cost $652,720,484) | | **813,165,856** |
| **Securities Lending Collateral 0.4%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (e) (Cost $4,000,000) | 4,000,000 | **4,000,000** |
| **Cash Equivalents 8.3%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $73,574,625) | 73,574,625 | **73,574,625** |

*The accompanying notes are an integral part of the financial statements.*

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $730,295,109) (a) | 100.0 | **890,740,481** |
| **Other Assets and Liabilities, Net** | 0.0 | **(370,384)** |
| **Net Assets** | 100.0 | **890,370,097** |

## Notes to SVS Dreman High Return Equity Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $731,563,096. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $159,177,385. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $211,516,014 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $52,338,629.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *A portion of this security was on loan (see Notes to Financial Statements). The value of the security loaned at June 30, 2005 amounted to $3,900,000, which is 0.4% of net assets.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *Represents collateral held in connection with securities lending.*

*ADR: American Depositary Receipt*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration Date | Contracts | Aggregated Face Value ($) | Value ($) | Net Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| S&P 500 Index | 9/15/2005 | 130 | 39,205,916 | 38,853,750 | (352,166) |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $652,720,484) — including $3,900,000 of securities loaned | $ | 813,165,856 |
| Investment in Scudder Daily Assets Fund Institutional (cost $4,000,000)* | | 4,000,000 |
| Investment in Scudder Cash Management QP Trust (cost $73,574,625) | | 73,574,625 |
| Total investments in securities, at value (cost $730,295,109) | | 890,740,481 |
| Cash | | 10,000 |
| Dividends receivable | | 1,901,370 |
| Interest receivable | | 181,514 |
| Receivable for Portfolio shares sold | | 53,910 |
| Margin deposit | | 3,000,000 |
| Other assets | | 16,036 |
| Total assets | | 895,903,311 |

### Liabilities

| | | |
|---|---|---|
| Payable for Portfolio shares redeemed | | 582,796 |
| Payable upon return of securities loaned | | 4,000,000 |
| Payable for daily variation margin on open futures contracts | | 240,500 |
| Accrued management fee | | 512,534 |
| Other accrued expenses and payables | | 197,384 |
| Total liabilities | | 5,533,214 |
| **Net assets, at value** | **$** | **890,370,097** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 7,363,915 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 160,445,372 |
| Futures | | (352,166) |
| Accumulated net realized gain (loss) | | (13,215,521) |
| Paid-in capital | | 736,128,497 |
| **Net assets, at value** | **$** | **890,370,097** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($765,530,912 ÷ 60,117,017 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.73** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($124,839,185 ÷ 9,801,147 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **12.74** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $15,247) | $ | 10,507,810 |
| Interest — Scudder Cash Management QP Trust | | 815,266 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 9,515 |
| Total Income | | 11,332,591 |
| Expenses: | | |
| Management fee | | 3,148,383 |
| Custodian and accounting fees | | 77,344 |
| Distribution service fees (Class B) | | 148,083 |
| Record keeping fees (Class B) | | 74,484 |
| Auditing | | 22,436 |
| Legal | | 10,305 |
| Trustees' fees and expenses | | 8,968 |
| Reports to shareholders | | 53,634 |
| Other | | 18,219 |
| Total expenses, before expense reductions | | 3,561,856 |
| Expense reductions | | (3,105) |
| Total expenses, after expense reductions | | 3,558,751 |
| **Net investment income (loss)** | | **7,773,840** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 7,854,588 |
| Futures | | 279,924 |
| Foreign currency related transactions | | 16 |
| | | 8,134,528 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | 6,457,211 |
| Futures | | (1,155,303) |
| | | 5,301,908 |
| **Net gain (loss) on investment transactions** | | **13,436,436** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **21,210,276** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 7,773,840 | $ 14,881,437 |
| Net realized gain (loss) on investment transactions | 8,134,528 | 11,147,529 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | 5,301,908 | 78,862,493 |
| Net increase (decrease) in net assets resulting from operations | 21,210,276 | 104,891,459 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (13,347,076) | (11,297,007) |
| Class B | (1,660,448) | (1,021,598) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 23,997,835 | 38,718,500 |
| Reinvestment of distributions | 13,347,076 | 11,297,007 |
| Cost of shares redeemed | (23,905,730) | (55,620,546) |
| Net increase (decrease) in net assets from Class A share transactions | 13,439,181 | (5,605,039) |
| **Class B** | | |
| Proceeds from shares sold | 9,539,514 | 42,816,407 |
| Reinvestment of distributions | 1,660,448 | 1,021,598 |
| Cost of shares redeemed | (4,712,899) | (4,506,330) |
| Net increase (decrease) in net assets from Class B share transactions | 6,487,063 | 39,331,675 |
| **Increase (decrease) in net assets** | **26,128,996** | 126,299,490 |
| Net assets at beginning of period | 864,241,101 | 737,941,611 |
| Net assets at end of period (including undistributed net investment income of $7,363,915 and $14,597,599, respectively) | **$ 890,370,097** | **$ 864,241,101** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 59,052,129 | 59,527,655 |
| Shares sold | 1,898,626 | 3,370,933 |
| Shares issued to shareholders in reinvestment of distributions | 1,067,766 | 1,011,370 |
| Shares redeemed | (1,901,504) | (4,857,829) |
| Net increase (decrease) in Portfolio shares | 1,064,888 | (475,526) |
| Shares outstanding at end of period | **60,117,017** | **59,052,129** |
| **Class B** | | |
| Shares outstanding at beginning of period | 9,286,484 | 5,819,055 |
| Shares sold | 757,683 | 3,763,080 |
| Shares issued to shareholders in reinvestment of distributions | 132,624 | 91,377 |
| Shares redeemed | (375,644) | (387,028) |
| Net increase (decrease) in Portfolio shares | 514,663 | 3,467,429 |
| Shares outstanding at end of period | **9,801,147** | **9,286,484** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 12.65** | **$ 11.29** | **$ 8.76** | **$ 10.81** | **$ 10.77** | **$ 8.96** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .12 | .23 | .20 | .21 | .19 | .26 |
| Net realized and unrealized gain (loss) on investment transactions | .19 | 1.32 | 2.53 | (2.13) | (.01) | 2.25 |
| **Total from investment operations** | .31 | 1.55 | 2.73 | (1.92) | .18 | 2.51 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.23) | (.19) | (.20) | (.09) | (.14) | (.20) |
| Net realized gains on investment transactions | — | — | — | (.04) | — | (.50) |
| **Total distributions** | (.23) | (.19) | (.20) | (.13) | (.14) | (.70) |
| **Net asset value, end of period** | **$ 12.73** | **$ 12.65** | **$ 11.29** | **$ 8.76** | **$ 10.81** | **$ 10.77** |
| Total Return (%) | 2.44** | 13.95 | 32.04 | (18.03) | 1.69 | 30.52 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 766 | 747 | 672 | 510 | 443 | 168 |
| Ratio of expenses before expense reductions (%) | .77* | .78 | .79 | .79 | .82 | .85 |
| Ratio of expenses after expense reductions (%) | .77* | .78 | .79 | .79 | .82 | .84 |
| Ratio of net investment income (loss) (%) | 1.85* | 1.96 | 2.14 | 2.21 | 1.78 | 2.85 |
| Portfolio turnover rate (%) | 8* | 9 | 18 | 17 | 16 | 37 |

a For the six months ended June 30, 2005 (Unaudited).

b On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.

c Based on average shares outstanding during the period.

* Annualized

** Not annualized

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 12.63** | **$ 11.27** | **$ 8.75** | **$ 9.57** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .09 | .18 | .16 | .18 |
| Net realized and unrealized gain (loss) on investment transactions | .20 | 1.33 | 2.53 | (1.00) |
| **Total from investment operations** | .29 | 1.51 | 2.69 | (.82) |
| *Less distributions from:* | | | | |
| Net investment income | (.18) | (.15) | (.17) | — |
| **Net asset value, end of period** | **$ 12.74** | **$ 12.63** | **$ 11.27** | **$ 8.75** |
| Total Return (%) | 2.29** | 13.53 | 31.60 | (8.57)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 125 | 117 | 66 | 2 |
| Ratio of expenses (%) | 1.15* | 1.16 | 1.18 | 1.05* |
| Ratio of net investment income (loss) (%) | 1.47* | 1.58 | 1.75 | 4.30* |
| Portfolio turnover rate (%) | 8* | 9 | 18 | 17 |

a For the six months ended June 30, 2005 (Unaudited).

b For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.

c Based on average shares outstanding during the period.

* Annualized

** Not annualized

## SVS Dreman Small Cap Value Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,029.60 | $ 1,027.30 |
| Expenses Paid per $1,000* | $ 3.93 | $ 5.78 |
| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,020.93 | $ 1,019.09 |
| Expenses Paid per $1,000* | $ 3.91 | $ 5.76 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS II Dreman Small Cap Value Portfolio | .78% | 1.15% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Dreman Small Cap Value Portfolio

During the first six months of 2005, the US stock market exhibited considerable volatility, as investors reacted to economic news that was somewhat contradictory. At the end of June, the S&P 500 Index was close to its level at the beginning of the year; the total return of the index for the six-month period was –0.81%. Small-cap stocks, lagged the large-cap market after several years of higher returns than large-cap stocks. Among small-cap stocks, as in the broader market, value stocks performed better than growth stocks. The Russell 2000 Value Index returned 0.90% for the six-month period.

The portfolio returned 2.96% (Class A shares, unadjusted for contract charges), outperforming its benchmark, the Russell 2000 Value Index. The most significant positive factor in this performance was an overweight in energy stocks. Holdings that performed especially well were ATP Oil & Gas Corp., Energy Partners Ltd. and Vintage Petroleum, which we sold after it met our price target. The fund's performance also benefited from a significant overweight relative to our small-cap benchmark in industrials, which stand to gain from increased business investment. Holdings in the industrials sector that contributed to performance include Watts Water Technologies, Inc., EMCOR Group, Inc., General Cable Corp., Precision Castparts Corp. and Oshkosh Truck Corp.

A significant underweight in financials was positive for performance; we adopted this stance in anticipation that rising interest rates would hurt small-cap banks and thrifts. Our pharmaceuticals position was modestly negative, as holdings such as Par Pharmaceutical Companies, Inc., and Perrigo Co. were down on weak earnings reports. One positive in health care was the February announcement that portfolio holding Accredo Health, Inc., has agreed to be acquired by Medco Health Solutions, Inc.

The small-cap market can be volatile, and this is especially true when there is so much uncertainty about interest rates, inflation and the direction of the economy. Based on our contrarian investment philosophy, we welcome opportunities to buy stocks of good companies with solid growth prospects at prices below what we see as their intrinsic value.

David N. Dreman
Nelson Woodard

Co-Managers
Dreman Value Management, L.L.C., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. Stocks of small companies involve greater risk than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be exposed to more erratic and abrupt market movements. The fund may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political, or regulatory development. This may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding this product's investments and risk profile.

*The Standard & Poor's 500 (S&P 500) Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Russell 2000 Value Index is an unmanaged index that consists of those stocks in the Russell 2000 Index with lower price-to-book ratios and lower forecasted growth values.*

*Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Dreman Small Cap Value Portfolio

| Asset Allocation | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 95% | 95% |
| Cash Equivalents | 3% | 3% |
| Corporate Bonds | 1% | 1% |
| Closed-End Investment Company | 1% | 1% |
| | 100% | 100% |

| Sector Diversification (Excludes Cash Equivalents) | 6/30/05 | 12/31/04 |
|---|---|---|
| Industrials | 24% | 21% |
| Financials | 22% | 28% |
| Energy | 11% | 7% |
| Health Care | 9% | 10% |
| Utilities | 8% | 8% |
| Materials | 8% | 10% |
| Information Technology | 8% | 5% |
| Consumer Discretionary | 5% | 6% |
| Consumer Staples | 5% | 5% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 161. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Dreman Small Cap Value Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 95.6%** | | |
| **Consumer Discretionary 4.9%** | | |
| **Hotels Restaurants & Leisure 1.4%** | | |
| Alliance Gaming Corp.* | 353,200 | 4,951,864 |
| CBRL Group, Inc. | 74,300 | 2,887,298 |
| | | **7,839,162** |
| **Leisure Equipment & Products 0.9%** | | |
| Lakes Entertainment, Inc.* | 308,700 | **4,753,980** |
| **Specialty Retail 0.5%** | | |
| DSW, Inc. "A"* | 400 | 9,980 |
| Mettler-Toledo International, Inc.* | 55,400 | 2,580,532 |
| | | **2,590,512** |
| **Textiles, Apparel & Luxury Goods 2.1%** | | |
| DHB Industries, Inc* | 419,200 | 3,542,240 |
| Phillips-Van Heusen Corp. | 127,036 | 4,152,807 |
| Wolverine World Wide, Inc. | 146,350 | 3,513,863 |
| | | **11,208,910** |
| **Consumer Staples 4.5%** | | |
| **Food & Staples Retailing 0.8%** | | |
| B&G Foods, Inc. | 265,600 | 3,888,384 |
| Centerplate, Inc. (IDS) | 20,700 | 263,925 |
| | | **4,152,309** |
| **Food Products 2.3%** | | |
| Chiquita Brands International, Inc. | 218,100 | 5,989,026 |
| Ralcorp Holdings, Inc. | 152,600 | 6,279,490 |
| | | **12,268,516** |
| **Personal Products 0.7%** | | |
| Helen of Troy Ltd.* | 147,600 | **3,757,896** |
| **Tobacco 0.7%** | | |
| Universal Corp. | 41,200 | 1,803,736 |
| Vector Group Ltd. | 111,576 | 2,071,966 |
| | | **3,875,702** |
| **Energy 10.9%** | | |
| **Energy Equipment & Services 5.4%** | | |
| Atwood Oceanics, Inc.* | 24,500 | 1,508,220 |
| Grant Prideco, Inc.* | 228,200 | 6,035,890 |
| Grey Wolf, Inc.* | 445,200 | 3,298,932 |
| Lone Star Technologies, Inc.* | 53,000 | 2,411,500 |
| Matrix Service Co.* | 159,200 | 729,136 |
| Offshore Logistics, Inc.* | 20,000 | 656,800 |
| Oil States International, Inc.* | 146,100 | 3,677,337 |
| Patterson-UTI Energy, Inc. | 205,800 | 5,727,414 |
| Superior Energy Services, Inc.* | 151,700 | 2,700,260 |
| Universal Compression Holdings, Inc.* | 66,700 | 2,417,208 |
| | | **29,162,697** |
| **Oil, Gas & Consumable Fuels 5.5%** | | |
| ATP Oil & Gas Corp.* | 44,800 | 1,048,320 |
| Carrizo Oil & Gas, Inc.* | 160,000 | 2,729,600 |
| Compton Petroleum Corp.* | 283,100 | 2,576,367 |
| Denbury Resources, Inc.* | 78,500 | 3,121,945 |
| Energy Partners Ltd.* | 35,000 | 917,350 |
| Global Industries, Inc.* | 339,800 | 2,888,300 |
| Petrohawk Energy Corp.* | 338,700 | 3,657,960 |
| PetroQuest Energy, Inc.* | 323,200 | 2,123,424 |
| Pioneer Drilling Co.* | 357,300 | 5,452,398 |
| Range Resources Corp. | 108,400 | 2,915,960 |
| Rosetta Resources, Inc.* | 130,700 | 2,091,200 |
| | | **29,522,824** |
| **Financials 21.4%** | | |
| **Banks 4.2%** | | |
| Centennial Bank Holdings, Inc.* | 400,000 | 4,320,000 |
| Center Financial Corp. | 91,400 | 2,269,462 |
| Commercial Capital Bancorp., Inc. | 69,800 | 1,166,358 |
| IndyMac Bancorp., Inc. | 59,950 | 2,441,764 |
| International Bancshares Corp. | 58,625 | 1,658,501 |
| NewAlliance Bancshares, Inc. | 233,700 | 3,283,485 |
| Oriental Financial Group, Inc. | 40 | 610 |
| PFF Bancorp., Inc. | 81,500 | 2,468,635 |
| Provident Bankshares Corp. | 49,350 | 1,574,759 |
| R & G Financial Corp. "B" | 72,900 | 1,289,601 |
| Sterling Financial Corp.* | 49,182 | 1,839,407 |
| Western Alliance Bancorp.* | 11,200 | 246,400 |
| | | **22,558,982** |
| **Diversified Financial Services 1.9%** | | |
| CBRE Realty Finance, Inc. 144A* | 200,000 | 3,000,000 |
| CMET Finance Holdings, Inc.* | 7,200 | 612,000 |
| Danielson Holding Corp.* | 153,300 | 1,865,661 |
| Hercules Technology Growth Capital, Inc.* | 37,600 | 485,040 |
| NGP Capital Resources Co. | 32,000 | 477,760 |
| Peoples Choice Financial Corp.* | 229,900 | 2,080,595 |
| Prospect Energy Corp. | 136,264 | 1,716,926 |
| | | **10,237,982** |
| **Insurance 5.1%** | | |
| Endurance Specialty Holdings Ltd. | 93,600 | 3,539,952 |
| KMG America Corp.* | 188,300 | 1,871,702 |
| Meadowbrook Insurance Group, Inc.* | 531,100 | 2,782,964 |
| ProCentury Corp. | 336,700 | 3,377,101 |
| Selective Insurance Group, Inc. | 131,200 | 6,500,960 |
| Specialty Underwriters' Alliance, Inc.* | 365,600 | 3,337,928 |
| Tower Group, Inc. | 232,800 | 3,638,664 |
| Triad Guaranty, Inc.* | 51,100 | 2,574,929 |
| | | **27,624,200** |
| **Real Estate 10.2%** | | |
| Aames Investment Corp. (REIT) | 157,600 | 1,531,872 |
| Capital Lease Funding, Inc. (REIT) | 164,000 | 1,779,400 |
| ECC Capital Corp. (REIT) | 78,700 | 524,142 |
| Feldman Mall Properties, Inc. (REIT) | 216,000 | 3,013,200 |
| Fieldstone Investment Corp. (REIT) | 309,200 | 4,452,480 |
| KKR Financial Corp. (REIT) 144A* | 491,150 | 12,278,750 |
| MortgageIT Holdings, Inc. (REIT) | 56,000 | 1,022,000 |
| New Century Financial Corp. (REIT) | 11,400 | 586,530 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Newcastle Investment Corp. (REIT) | 221,300 | 6,672,195 |
| Novastar Financial, Inc. (REIT) | 456,000 | 17,852,400 |
| Thomas Properties Group, Inc. (REIT) | 229,100 | 2,866,041 |
| Vintage Wine Trust, Inc. (REIT) 144A* | 280,700 | 2,807,000 |
| | | **55,386,010** |
| **Health Care 9.2%** | | |
| **Biotechnology 1.8%** | | |
| Charles River Laboratories International, Inc.* | 130,800 | 6,311,100 |
| Serologicals Corp.* | 165,300 | 3,512,625 |
| | | **9,823,725** |
| **Health Care Equipment & Supplies 1.5%** | | |
| Millipore Corp.* | 60,700 | 3,443,511 |
| PerkinElmer, Inc. | 108,400 | 2,048,760 |
| Zoll Medical Corp.* | 92,500 | 2,354,125 |
| | | **7,846,396** |
| **Health Care Providers & Services 4.8%** | | |
| Accredo Health, Inc.* | 93,100 | 4,226,740 |
| Allied Healthcare International, Inc.* | 439,000 | 3,108,120 |
| Hanger Orthopedic Group, Inc.* | 107,600 | 542,304 |
| Kindred Healthcare, Inc.* | 39,400 | 1,560,634 |
| LabOne, Inc.* | 58,600 | 2,332,866 |
| LifePoint Hospitals, Inc.* | 52,068 | 2,630,476 |
| Odyssey Healthcare, Inc.* | 255,200 | 3,679,984 |
| Pediatrix Medical Group, Inc.* | 42,600 | 3,132,804 |
| Triad Hospitals, Inc.* | 84,500 | 4,617,080 |
| | | **25,831,008** |
| **Pharmaceuticals 1.1%** | | |
| Par Pharmaceutical Companies, Inc.* | 150,500 | 4,787,405 |
| Perrigo Co. | 90,000 | 1,254,600 |
| | | **6,042,005** |
| **Industrials 22.8%** | | |
| **Aerospace & Defense 4.3%** | | |
| Applied Signal Technology, Inc. | 147,000 | 2,798,880 |
| ARGON ST, Inc.* | 37,700 | 1,338,350 |
| CAE, Inc. | 707,800 | 3,800,886 |
| DRS Technologies, Inc. | 81,200 | 4,163,936 |
| GenCorp, Inc.* | 207,000 | 3,986,820 |
| Herley Industries, Inc.* | 141,800 | 2,586,432 |
| Precision Castparts Corp. | 31,100 | 2,422,690 |
| Triumph Group, Inc.* | 68,500 | 2,381,060 |
| | | **23,479,054** |
| **Building Products 1.2%** | | |
| Levitt Corp. "A" | 158,800 | 4,751,296 |
| NCI Building Systems, Inc.* | 52,600 | 1,725,280 |
| | | **6,476,576** |
| **Commercial Services & Supplies 2.1%** | | |
| Consolidated Graphics, Inc.* | 39,700 | 1,618,569 |
| Duratek, Inc.* | 198,000 | 4,589,640 |
| Nobel Learning Communities, Inc.* | 96,900 | 840,123 |
| WCA Waste Corp.* | 469,700 | 4,109,875 |
| | | **11,158,207** |

| | Shares | Value ($) |
|---|---|---|
| **Construction & Engineering 5.1%** | | |
| Dycom Industries, Inc.* | 89,300 | 1,769,033 |
| EMCOR Group, Inc.* | 78,200 | 3,823,980 |
| Foster Wheeler Ltd.* | 323,250 | 6,355,095 |
| Granite Construction, Inc. | 33,500 | 941,350 |
| Infrasource Services, Inc.* | 260,600 | 2,715,452 |
| URS Corp.* | 187,800 | 7,014,330 |
| Washington Group International, Inc.* | 98,300 | 5,025,096 |
| | | **27,644,336** |
| **Electrical Equipment 2.3%** | | |
| General Cable Corp.* | 661,400 | 9,808,562 |
| Genlyte Group, Inc.* | 52,000 | 2,534,480 |
| | | **12,343,042** |
| **Machinery 3.8%** | | |
| AGCO Corp.* | 218,000 | 4,168,160 |
| Harsco Corp. | 70,700 | 3,856,685 |
| Oshkosh Truck Corp. | 41,100 | 3,217,308 |
| Terex Corp.* | 70,600 | 2,781,640 |
| Valmont Industries | 112,400 | 2,899,920 |
| Watts Water Technologies, Inc. "A" | 114,200 | 3,824,558 |
| | | **20,748,271** |
| **Marine 0.9%** | | |
| GulfMark Offshore, Inc.* | 81,000 | 2,212,110 |
| Hornbeck Offshore Services, Inc.* | 102,600 | 2,779,434 |
| | | **4,991,544** |
| **Road & Rail 2.3%** | | |
| Genesee & Wyoming, Inc.* | 112,850 | 3,070,649 |
| Laidlaw International, Inc.* | 186,400 | 4,492,240 |
| RailAmerica, Inc.* | 145,900 | 1,736,210 |
| Swift Transportation Co., Inc.* | 134,000 | 3,120,860 |
| | | **12,419,959** |
| **Trading Companies & Distributors 0.8%** | | |
| Aviall, Inc.* | 25,100 | 792,909 |
| WESCO International, Inc.* | 111,800 | 3,508,284 |
| | | **4,301,193** |
| **Information Technology 7.3%** | | |
| **Computers & Peripherals 1.6%** | | |
| Applied Films Corp.* | 107,600 | 2,754,560 |
| CyberGuard Corp.* | 234,400 | 1,393,508 |
| Komag, Inc.* | 156,900 | 4,451,253 |
| | | **8,599,321** |
| **Electronic Equipment & Instruments 2.4%** | | |
| Aeroflex, Inc.* | 400,900 | 3,367,560 |
| Plexus Corp.* | 238,700 | 3,396,701 |
| Scansource, Inc.* | 73,300 | 3,147,502 |
| Vishay Intertechnology, Inc.* | 264,000 | 3,133,680 |
| | | **13,045,443** |
| **IT Consulting & Services 1.0%** | | |
| CACI International, Inc. "A"* | 47,600 | 3,006,416 |
| Covansys Corp.* | 184,800 | 2,374,680 |
| | | **5,381,096** |
| **Semiconductors & Semiconductor Equipment 1.2%** | | |
| MEMC Electronic Materials, Inc.* | 126,700 | 1,998,059 |
| MKS Instruments, Inc.* | 105,500 | 1,781,895 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| OmniVision Technologies, Inc.* | 73,400 | 997,506 |
| Ultratech, Inc.* | 88,100 | 1,612,230 |
| | | **6,389,690** |
| **Software 1.1%** | | |
| Sonic Solutions* | 220,500 | 4,101,300 |
| TIBCO Software, Inc.* | 309,600 | 2,024,784 |
| | | **6,126,084** |
| **Materials 7.5%** | | |
| **Chemicals 1.9%** | | |
| Agrium, Inc. | 148,200 | 2,906,202 |
| Georgia Gulf Corp. | 62,000 | 1,925,100 |
| NOVA Chemicals Corp. | 46,400 | 1,417,984 |
| Sensient Technologies Corp. | 186,900 | 3,852,009 |
| | | **10,101,295** |
| **Construction Materials 1.6%** | | |
| Ameron International Corp. | 15,400 | 575,960 |
| Florida Rock Industries, Inc. | 73,695 | 5,405,528 |
| Headwaters, Inc.* | 84,300 | 2,898,234 |
| | | **8,879,722** |
| **Metals & Mining 4.0%** | | |
| Aleris International, Inc.* | 188,200 | 4,243,910 |
| Century Aluminum Co.* | 70,000 | 1,428,000 |
| Goldcorp, Inc. | 234,250 | 3,696,465 |
| Metal Management, Inc. | 76,300 | 1,476,405 |
| Northwest Pipe Co.* | 110,100 | 2,559,825 |
| NS Group, Inc.* | 88,600 | 2,880,386 |
| Pan American Silver Corp.* | 202,500 | 2,994,975 |
| Uranium Resources, Inc.* | 1,175,900 | 540,914 |
| Worthington Industries, Inc. | 118,700 | 1,875,460 |
| | | **21,696,340** |
| **Telecommunication Services 0.2%** | | |
| **Diversified Telecommunication Services** | | |
| Alaska Communications Systems Group, Inc. | 133,400 | **1,321,994** |
| **Utilities 6.9%** | | |
| **Electric Utilities 2.0%** | | |
| Allegheny Energy, Inc.* | 181,700 | 4,582,474 |
| Sierra Pacific Resources* | 250,500 | 3,118,725 |
| TECO Energy, Inc. | 172,000 | 3,252,520 |
| | | **10,953,719** |
| **Gas Utilities 2.5%** | | |
| ONEOK, Inc. | 128,200 | 4,185,730 |
| Southern Union Co.* | 387,100 | 9,503,305 |
| | | **13,689,035** |
| **Independent Power Producers & Energy Traders 0.4%** | | |
| Dynegy, Inc. "A"* | 368,500 | **1,790,910** |
| **Multi-Utilities 1.7%** | | |
| CMS Energy Corp.* | 147,000 | 2,213,820 |
| Ormat Technologies, Inc. | 203,000 | 3,877,300 |
| WPS Resources Corp. | 54,700 | 3,076,874 |
| | | **9,167,994** |
| **Multi-Utilities & Unregulated Power 0.3%** | | |
| Reliant Energy, Inc.* | 163,200 | **1,743,105** |
| **Total Common Stocks** (Cost $418,228,509) | | **516,930,746** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **Corporate Bonds 0.9%** | | |
| **Utilities** | | |
| Mirant Corp. 144A, 7.9%, 7/15/2009 * (Cost $3,522,500) | 6,000,000 | **4,920,000** |

| | Shares | Value ($) |
|---|---|---|
| **Closed End Investment Company 0.8%** | | |
| Tortoise Energy Infrastructure Corp. (Cost $3,712,615) | 147,789 | **4,664,221** |
| **Cash Equivalents 3.6%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $19,445,410) | 19,445,410 | **19,445,410** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $444,909,034) (a) | 100.9 | **545,960,377** |
| **Other Assets and Liabilities, Net** | (0.9) | **(5,077,584)** |
| **Net Assets** | 100.0 | **540,882,793** |

*The accompanying notes are an integral part of the financial statements.*

## Notes to SVS Dreman Small Cap Value Portfolio of Investments

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.*

*The following table represents bonds that are in default.*

| Security | Coupon | Maturity Date | Principal Amount | Acquisition Cost ($) | Value ($) |
|---|---|---|---|---|---|
| Mirant Corp. | 7.9% | 7/15/2009 | 6,000,000 | 3,522,500 | 4,920,000 |

*(a) The cost for federal income tax purposes was $444,936,794. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $101,023,583. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $111,414,772 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $10,391,189.*

*(b) Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*IDS: Income Deposit Security*

*REIT: Real Estate Investment Trust*

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $425,463,624) | $ | 526,514,967 |
| Investment in Scudder Cash Management QP Trust (cost $19,445,410) | | 19,445,410 |
| Total investments in securities, at value (cost $444,909,034) | | 545,960,377 |
| Cash | | 55 |
| Receivable for investments sold | | 1,930,760 |
| Dividends receivable | | 548,401 |
| Interest receivable | | 51,256 |
| Receivable for Portfolio shares sold | | 101,955 |
| Other assets | | 11,078 |
| Total assets | | 548,603,882 |
| **Liabilities** | | |
| Payable for investments purchased | | 6,973,763 |
| Payable for Portfolio shares redeemed | | 347,242 |
| Accrued management fee | | 312,838 |
| Other accrued expenses and payables | | 87,246 |
| Total liabilities | | 7,721,089 |
| **Net assets, at value** | **$** | **540,882,793** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Undistributed net investment income | | 1,553,060 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 101,051,343 |
| Foreign currency related transactions | | (83) |
| Accumulated net realized gain (loss) | | 36,520,511 |
| Paid-in capital | | 401,757,962 |
| **Net assets, at value** | **$** | **540,882,793** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($464,583,121 ÷ 24,903,931 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **18.66** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($76,299,672 ÷ 4,091,105 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **18.65** |

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends (net of foreign taxes withheld of $10,211) | $ | 3,393,626 |
| Interest — Scudder Cash Management QP Trust | | 307,679 |
| Total Income | | 3,701,305 |
| Expenses: | | |
| Management fee | | 1,950,146 |
| Custodian fees | | 12,257 |
| Distribution service fees (Class B) | | 88,706 |
| Record keeping fees (Class B) | | 42,443 |
| Auditing | | 21,483 |
| Legal | | 9,778 |
| Trustees' fees and expenses | | 5,949 |
| Reports to shareholders | | 35,078 |
| Other | | 8,125 |
| Total expenses, before expense reductions | | 2,173,965 |
| Expense reductions | | (2,281) |
| Total expenses, after expense reductions | | 2,171,684 |
| **Net investment income (loss)** | | **1,529,621** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from: | | |
| Investments | | 37,057,490 |
| Foreign currency related transactions | | 153 |
| | | 37,057,643 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (23,553,139) |
| Foreign currency related transactions | | (15) |
| | | (23,553,154) |
| **Net gain (loss) on investment transactions** | | **13,504,489** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **15,034,110** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 1,529,621 | $ 4,034,360 |
| Net realized gain (loss) on investment transactions | 37,057,643 | 63,112,019 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (23,553,154) | 38,864,967 |
| Net increase (decrease) in net assets resulting from operations | 15,034,110 | 106,011,346 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (3,388,867) | (3,405,170) |
| Class B | (268,871) | (212,277) |
| Net realized gains | | |
| Class A | (41,035,260) | — |
| Class B | (6,476,182) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 21,465,295 | 64,900,813 |
| Reinvestment of distributions | 44,424,127 | 3,405,170 |
| Cost of shares redeemed | (36,765,652) | (45,290,684) |
| Net increase (decrease) in net assets from Class A share transactions | 29,123,770 | 23,015,299 |
| **Class B** | | |
| Proceeds from shares sold | 6,311,511 | 29,315,151 |
| Reinvestment of distributions | 6,745,053 | 212,277 |
| Cost of shares redeemed | (2,771,236) | (3,011,503) |
| Net increase (decrease) in net assets from Class B share transactions | 10,285,328 | 26,515,925 |
| **Increase (decrease) in net assets** | **3,274,028** | 151,925,123 |
| Net assets at beginning of period | 537,608,765 | 385,683,642 |
| Net assets at end of period (including undistributed net investment income of $1,553,060 and $3,681,177, respectively) | **$ 540,882,793** | **$ 537,608,765** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 23,288,245 | 22,038,819 |
| Shares sold | 1,148,167 | 3,660,918 |
| Shares issued to shareholders in reinvestment of distributions | 2,463,901 | 197,059 |
| Shares redeemed | (1,996,382) | (2,608,551) |
| Net increase (decrease) in Portfolio shares | 1,615,686 | 1,249,426 |
| Shares outstanding at end of period | **24,903,931** | **23,288,245** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,531,644 | 1,977,912 |
| Shares sold | 334,653 | 1,706,542 |
| Shares issued to shareholders in reinvestment of distributions | 373,894 | 12,277 |
| Shares redeemed | (149,086) | (165,087) |
| Net increase (decrease) in Portfolio shares | 559,461 | 1,553,732 |
| Shares outstanding at end of period | **4,091,105** | **3,531,644** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | $ 20.05 | **$ 16.06** | **$ 11.66** | **$ 13.21** | **$ 11.23** | **$ 10.85** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .06 | .17 | .19 | .17 | .09 | .02 |
| Net realized and unrealized gain (loss) on investment transactions | .48 | 3.98 | 4.55 | (1.67) | 1.89 | .42 |
| **Total from investment operations** | .54 | 4.15 | 4.74 | (1.50) | 1.98 | .44 |
| *Less distributions from:* | | | | | | |
| Net investment income | (.15) | (.16) | (.15) | (.05) | — | (.06) |
| Net realized gains on investment transactions | (1.78) | — | (.19) | — | — | — |
| **Total distributions** | (1.93) | (.16) | (.34) | (.05) | — | (.06) |
| **Net asset value, end of period** | **$ 18.66** | **$ 20.05** | **$ 16.06** | **$ 11.66** | **$ 13.21** | **$ 11.23** |
| Total Return (%) | 2.96** | 26.03 | 42.15 | (11.43) | 17.63 | 4.05 |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 465 | 467 | 354 | 250 | 194 | 84 |
| Ratio of expenses (%) | .78* | .79 | .80 | .81 | .79 | .82 |
| Ratio of net investment income (loss) (%) | .64* | .96 | 1.46 | 1.28 | .77 | .15 |
| Portfolio turnover rate (%) | 70* | 73 | 71 | 86 | 57 | 36 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *On June 18, 2001, the Portfolio implemented 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

c *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | $ 20.01 | **$ 16.03** | **$ 11.65** | **$ 13.86** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .03 | .10 | .13 | .17 |
| Net realized and unrealized gain (loss) on investment transactions | .46 | 3.97 | 4.56 | (2.38) |
| **Total from investment operations** | .49 | 4.07 | 4.69 | (2.21) |
| *Less distributions from:* | | | | |
| Net investment income | (.07) | (.09) | (.12) | — |
| Net realized gains on investment transactions | (1.78) | — | (.19) | — |
| **Total distributions** | (1.85) | (.09) | (.31) | — |
| **Net asset value, end of period** | **$ 18.65** | **$ 20.01** | **$ 16.03** | **$ 11.65** |
| Total Return (%) | 2.73** | 25.52 | 41.65 | (15.95)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 76 | 71 | 32 | 1 |
| Ratio of expenses (%) | 1.15* | 1.16 | 1.19 | 1.06* |
| Ratio of net investment income (loss) (%) | .27* | .59 | 1.07 | 3.01* |
| Portfolio turnover rate (%) | 70* | 73 | 71 | 86 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *For the period from July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

c *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## SVS Index 500 Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, Class B shares of the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 990.30 | $ 988.80 |
| Expenses Paid per $1,000* | $ 1.48 | $ 3.11 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,023.31 | $ 1,021.67 |
| Expenses Paid per $1,000* | $ 1.51 | $ 3.16 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS Index 500 Portfolio | .30% | .63% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Index 500 Portfolio

The economic news was generally good over the last six months. Employment numbers remained solid, consumer spending continued strong, and there was increasing evidence of rising business investment in information technology and capital items such as plants and equipment. However, there was considerable apprehension about whether rising energy prices would spark more-generalized inflation, with its negative effects on consumer spending and business investment. Expressing concern about inflation, the US Federal Reserve Board (the Fed) has been raising short-term rates steadily since June 2004.

As of June 30, 2005, the US stock market (as measured by the S&P 500 Index) was close to its level at the beginning of the calendar year, after a downward move in the early months of the year was followed by a modest rally with considerable volatility in May and June. For the six-month period, the S&P 500 Index returned –0.81% compared with the portfolio's return of –0.97% (Class A shares, unadjusted for contract charges). Since the portfolio's investment strategy is to replicate, as closely as possible, before the deduction of expenses, the performance of the S&P 500 Index, the portfolio's return is normally close to the return of the index.

For the semiannual period, six of the 10 industry sectors within the S&P 500 Index had negative returns, and the other four sectors had positive returns. Driven by rising oil prices, energy was the strongest sector by far, with a return of 19.89%, followed by utilities, which had a return of 15.24%. Health care had a return of 3.51%, and consumer staples was slightly positive, with a return of 0.03%. The weakest sector was materials, with a return of –7.49%. Other negative sectors and their returns were consumer discretionary (–6.54%), information technology (–5.74%), industrials (–4.83%), telecommunications services (–4.49%) and financials (–2.33%).

James B. Francis
Portfolio Manager

Northern Trust Investments, N.A., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may not be able to mirror the S&P 500 Index closely enough to track its performance for several reasons, including the portfolio's cost to buy and sell securities, as well as the flow of money into and out of the portfolio. This portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, derivatives may be more volatile and less liquid than traditional securities and the portfolio could suffer losses on its derivatives positions. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Standard & Poor's," "S&P," "S&P 500," "Standard & Poor's 500" and "500" are trademarks of The McGraw–Hill Companies, Inc., and have been licensed for use by the fund's advisor. The SVS Index 500 Portfolio is not sponsored, endorsed, sold, nor promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the portfolio. There is no guarantee that the fund will be able to mirror the S&P 500 index closely enough to track its performance.*

*The Standard & Poor's 500 (S&P 500) Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Index 500 Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 99% |
| Cash Equivalents | 1% | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Financials | 20% | 21% |
| Information Technology | 15% | 16% |
| Health Care | 13% | 13% |
| Consumer Discretionary | 12% | 12% |
| Industrials | 11% | 12% |
| Consumer Staples | 10% | 10% |
| Energy | 9% | 7% |
| Utilities | 4% | 3% |
| Telecommunication Services | 3% | 3% |
| Materials | 3% | 3% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 171. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Index 500 Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 99.0%** | | |
| **Consumer Discretionary 11.4%** | | |
| **Auto Components 0.2%** | | |
| Cooper Tire & Rubber Co. | 2,249 | 41,764 |
| Dana Corp. | 4,863 | 72,994 |
| Delphi Corp. | 18,218 | 84,714 |
| Goodyear Tire & Rubber Co.* | 7,394 | 110,170 |
| Johnson Controls, Inc. | 6,146 | 346,204 |
| Visteon Corp. | 3,894 | 23,481 |
| | | **679,327** |
| **Automobiles 0.5%** | | |
| Ford Motor Co. | 65,173 | 667,371 |
| General Motors Corp. (e) | 20,036 | 681,224 |
| Harley-Davidson, Inc. | 10,586 | 525,066 |
| | | **1,873,661** |
| **Distributors 0.1%** | | |
| Genuine Parts Co. | 5,509 | **226,365** |
| **Diversified Consumer Services 0.2%** | | |
| Apollo Group, Inc. "A"* | 6,081 | 475,656 |
| H&R Block, Inc. | 5,348 | 312,056 |
| | | **787,712** |
| **Hotels Restaurants & Leisure 1.5%** | | |
| Carnival Corp. | 18,646 | 1,017,139 |
| Darden Restaurants, Inc. | 4,804 | 158,436 |
| Harrah's Entertainment, Inc. | 6,219 | 448,204 |
| Hilton Hotels Corp. | 12,532 | 298,888 |
| International Game Technology | 11,188 | 314,942 |
| Marriott International, Inc. "A" | 7,620 | 519,837 |
| McDonald's Corp. | 42,791 | 1,187,450 |
| Starbucks Corp.* | 14,314 | 739,461 |
| Starwood Hotels & Resorts Worldwide, Inc. | 6,693 | 392,009 |
| Wendy's International, Inc. | 4,711 | 224,479 |
| YUM! Brands, Inc. | 9,458 | 492,573 |
| | | **5,793,418** |
| **Household Durables 0.6%** | | |
| Black & Decker Corp. | 2,622 | 235,587 |
| Centex Corp. | 4,035 | 285,154 |
| Fortune Brands, Inc. | 5,355 | 475,524 |
| KB Home | 3,292 | 250,949 |
| Leggett & Platt, Inc. | 6,164 | 163,839 |
| Maytag Corp. | 4,329 | 67,792 |
| Newell Rubbermaid, Inc. | 8,873 | 211,532 |
| Pulte Homes, Inc. | 3,841 | 323,604 |
| Snap-on, Inc. | 1,893 | 64,930 |
| The Stanley Works | 2,456 | 111,846 |
| Whirlpool Corp. | 2,745 | 192,452 |
| | | **2,383,209** |
| **Internet & Catalog Retail 0.4%** | | |
| eBay, Inc.* | 40,906 | **1,350,307** |
| **Leisure Equipment & Products 0.2%** | | |
| Brunswick Corp. | 3,406 | 147,548 |
| Eastman Kodak Co. | 10,707 | 287,483 |
| Hasbro, Inc. | 5,527 | 114,906 |
| Mattel, Inc. | 13,398 | 245,184 |
| | | **795,121** |
| **Media 3.6%** | | |
| Clear Channel Communications, Inc. | 18,118 | 560,390 |
| Comcast Corp. "A"* | 77,072 | 2,366,110 |
| Dow Jones & Co., Inc. | 2,261 | 80,152 |
| Gannett Co., Inc. | 8,642 | 614,706 |
| Interpublic Group of Companies, Inc.* | 13,697 | 166,829 |
| Knight-Ridder, Inc. | 2,400 | 147,216 |
| McGraw-Hill Companies, Inc. | 14,264 | 631,182 |
| Meredith Corp. | 1,524 | 74,767 |
| New York Times Co. "A" | 4,710 | 146,717 |
| News Corp. "A" | 100,854 | 1,631,818 |
| Omnicom Group, Inc. | 6,016 | 480,438 |
| Time Warner, Inc.* | 158,182 | 2,643,221 |
| Tribune Co. | 9,658 | 339,768 |
| Univision Communications, Inc. "A"* | 9,393 | 258,777 |
| Viacom, Inc. "B" | 55,249 | 1,769,073 |
| Walt Disney Co. | 68,970 | 1,736,665 |
| | | **13,647,829** |
| **Multiline Retail 1.3%** | | |
| Big Lots, Inc.* | 3,692 | 48,882 |
| Dillard's, Inc. "A" | 2,251 | 52,718 |
| Dollar General Corp. | 9,737 | 198,245 |
| Family Dollar Stores, Inc. | 5,444 | 142,088 |
| Federated Department Stores, Inc. | 6,263 | 458,953 |
| J.C. Penney Co., Inc. | 8,822 | 463,861 |
| Kohl's Corp.* | 11,778 | 658,508 |
| May Department Stores Co. | 9,428 | 378,629 |
| Nordstrom, Inc. | 4,824 | 327,887 |
| Sears Holdings Corp.* | 3,102 | 464,897 |
| Target Corp. | 31,510 | 1,714,459 |
| | | **4,909,127** |
| **Specialty Retail 2.4%** | | |
| AutoNation, Inc.* | 7,300 | 149,796 |
| AutoZone, Inc.* | 2,191 | 202,580 |
| Bed Bath & Beyond, Inc.* | 11,116 | 464,426 |
| Best Buy Co., Inc. | 9,774 | 670,008 |
| Circuit City Stores, Inc. | 6,330 | 109,446 |
| Home Depot, Inc. | 74,399 | 2,894,121 |
| Limited Brands, Inc. | 12,294 | 263,337 |
| Lowe's Companies, Inc. | 26,550 | 1,545,741 |
| Office Depot, Inc.* | 11,803 | 269,581 |
| OfficeMax, Inc. | 4,041 | 120,301 |
| RadioShack Corp. | 5,145 | 119,210 |
| Sherwin-Williams Co. | 4,089 | 192,551 |
| Staples, Inc. | 27,014 | 575,938 |
| The Gap, Inc. | 28,407 | 561,038 |
| Tiffany & Co. | 4,600 | 150,696 |
| TJX Companies, Inc. | 15,558 | 378,837 |
| Toys "R" Us, Inc.* | 8,317 | 220,234 |
| | | **8,887,841** |
| **Textiles, Apparel & Luxury Goods 0.4%** | | |
| Coach, Inc.* | 12,200 | 409,554 |
| Jones Apparel Group, Inc. | 3,997 | 124,067 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Liz Claiborne, Inc. | 3,524 | 140,114 |
| NIKE, Inc. "B" | 8,375 | 725,275 |
| Reebok International Ltd. | 1,877 | 78,515 |
| VF Corp. | 3,287 | 188,082 |
| | | **1,665,607** |
| **Consumer Staples 10.0%** | | |
| **Beverages 2.2%** | | |
| Anheuser-Busch Companies, Inc. | 27,009 | 1,235,662 |
| Brown-Forman Corp. "B" | 2,880 | 174,125 |
| Coca-Cola Co. | 76,514 | 3,194,459 |
| Coca-Cola Enterprises, Inc. | 12,250 | 269,622 |
| Molson Coors Brewing Co. "B" | 2,492 | 154,504 |
| Pepsi Bottling Group, Inc. | 6,419 | 183,648 |
| PepsiCo, Inc. | 58,186 | 3,137,971 |
| | | **8,349,991** |
| **Food & Staples Retailing 2.9%** | | |
| Albertsons, Inc. | 14,349 | 296,737 |
| Costco Wholesale Corp. | 16,945 | 759,475 |
| CVS Corp. | 26,234 | 762,622 |
| Kroger Co.* | 23,663 | 450,307 |
| Safeway, Inc.* | 15,427 | 348,496 |
| SUPERVALU, Inc. | 4,270 | 139,245 |
| Sysco Corp. | 22,857 | 827,195 |
| Wal-Mart Stores, Inc. | 115,127 | 5,549,121 |
| Walgreen Co. | 35,796 | 1,646,258 |
| | | **10,779,456** |
| **Food Products 1.1%** | | |
| Archer-Daniels-Midland Co. | 22,532 | 481,734 |
| Campbell Soup Co. | 10,785 | 331,854 |
| ConAgra Foods, Inc. | 16,605 | 384,572 |
| General Mills, Inc. | 13,464 | 629,981 |
| H.J. Heinz Co. | 11,279 | 399,502 |
| Kellogg Co. | 12,732 | 565,810 |
| McCormick & Co, Inc. | 4,414 | 144,249 |
| Sara Lee Corp. | 25,939 | 513,852 |
| The Hershey Co. | 7,046 | 437,557 |
| William Wrigley Jr. Co. | 6,247 | 430,043 |
| | | **4,319,154** |
| **Household Products 1.8%** | | |
| Clorox Co. | 4,930 | 274,700 |
| Colgate-Palmolive Co. | 18,121 | 904,419 |
| Kimberly-Clark Corp. | 17,347 | 1,085,749 |
| Procter & Gamble Co. | 85,500 | 4,510,125 |
| | | **6,774,993** |
| **Personal Products 0.6%** | | |
| Alberto-Culver Co. "B" | 2,755 | 119,374 |
| Avon Products, Inc. | 15,270 | 577,970 |
| Gillette Co. | 34,754 | 1,759,595 |
| | | **2,456,939** |
| **Tobacco 1.4%** | | |
| Altria Group, Inc. | 71,570 | 4,627,717 |
| Reynolds American, Inc. | 3,764 | 296,603 |
| UST, Inc. | 5,635 | 257,294 |
| | | **5,181,614** |

| | Shares | Value ($) |
|---|---|---|
| **Energy 8.7%** | | |
| **Energy Equipment & Services 1.3%** | | |
| Baker Hughes, Inc. | 12,031 | 615,506 |
| BJ Services Co. | 6,243 | 327,633 |
| Halliburton Co. | 16,591 | 793,382 |
| Nabors Industries Ltd.* | 4,854 | 294,249 |
| National-Oilwell Varco, Inc.* | 5,400 | 256,716 |
| Noble Corp. | 4,395 | 270,336 |
| Rowan Companies, Inc. | 4,682 | 139,102 |
| Schlumberger Ltd. | 19,909 | 1,511,889 |
| Transocean, Inc.* | 10,383 | 560,371 |
| | | **4,769,184** |
| **Oil, Gas & Consumable Fuels 7.4%** | | |
| Amerada Hess Corp. | 2,750 | 292,902 |
| Anadarko Petroleum Corp. | 7,686 | 631,405 |
| Apache Corp. | 11,141 | 719,709 |
| Ashland, Inc. | 2,808 | 201,811 |
| Burlington Resources, Inc. | 14,040 | 775,570 |
| ChevronTexaco Corp. | 71,402 | 3,992,800 |
| ConocoPhillips | 46,770 | 2,688,807 |
| Devon Energy Corp. | 17,192 | 871,291 |
| El Paso Corp. | 20,868 | 240,399 |
| EOG Resources, Inc. | 7,657 | 434,918 |
| ExxonMobil Corp. | 217,987 | 12,527,713 |
| Kerr-McGee Corp. | 3,534 | 269,680 |
| Kinder Morgan, Inc. | 4,422 | 367,910 |
| Marathon Oil Corp. | 12,690 | 677,265 |
| Occidental Petroleum Corp. | 14,244 | 1,095,791 |
| Sunoco, Inc. | 2,608 | 296,477 |
| Unocal Corp. | 9,798 | 637,360 |
| Valero Energy Corp. | 8,486 | 671,327 |
| Williams Companies, Inc. | 18,464 | 350,816 |
| XTO Energy, Inc. | 11,208 | 380,960 |
| | | **28,124,911** |
| **Financials 20.1%** | | |
| **Banks 6.4%** | | |
| AmSouth Bancorp. | 11,428 | 297,128 |
| Bank of America Corp. | 137,809 | 6,285,468 |
| BB&T Corp. | 17,734 | 708,828 |
| Comerica, Inc. | 5,437 | 314,259 |
| Compass Bancshares, Inc. | 3,700 | 166,500 |
| Fifth Third Bancorp | 19,064 | 785,627 |
| First Horizon National Corp. | 3,998 | 168,716 |
| Golden West Financial Corp. | 9,287 | 597,897 |
| Huntington Bancshares, Inc. | 7,510 | 181,291 |
| KeyCorp | 13,129 | 435,226 |
| M&T Bank Corp. | 3,150 | 331,254 |
| Marshall & Ilsley Corp. | 6,654 | 295,770 |
| National City Corp. | 21,876 | 746,409 |
| North Fork Bancorp., Inc. | 15,196 | 426,856 |
| PNC Financial Services Group | 10,626 | 578,692 |
| Regions Financial Corp. | 15,007 | 508,437 |
| Sovereign Bancorp, Inc. | 11,167 | 249,471 |
| SunTrust Banks, Inc. | 12,371 | 893,681 |
| Synovus Financial Corp. | 10,053 | 288,220 |
| US Bancorp. | 65,384 | 1,909,213 |
| Wachovia Corp. | 55,276 | 2,741,690 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Washington Mutual, Inc. | 31,189 | 1,269,080 |
| Wells Fargo & Co. | 57,224 | 3,523,854 |
| Zions Bancorp. | 3,811 | 280,223 |
| | | **23,983,790** |
| **Capital Markets 2.7%** | | |
| Bank of New York Co., Inc. | 28,584 | 822,647 |
| Bear Stearns Companies, Inc. | 3,758 | 390,606 |
| Charles Schwab Corp. | 36,989 | 417,236 |
| E*TRADE Financial Corp.* | 12,000 | 167,880 |
| Federated Investors, Inc. "B" | 3,500 | 105,035 |
| Franklin Resources, Inc. | 7,352 | 565,957 |
| Janus Capital Group, Inc. | 7,671 | 115,372 |
| Lehman Brothers Holdings, Inc. | 8,999 | 893,421 |
| Mellon Financial Corp. | 13,675 | 392,336 |
| Merrill Lynch & Co., Inc. | 32,772 | 1,802,788 |
| Morgan Stanley | 37,440 | 1,964,477 |
| Northern Trust Corp. | 7,049 | 321,364 |
| State Street Corp. | 12,365 | 596,611 |
| T. Rowe Price Group, Inc. | 4,560 | 285,456 |
| The Goldman Sachs Group, Inc. | 14,933 | 1,523,465 |
| | | **10,364,651** |
| **Consumer Finance 1.3%** | | |
| American Express Co. | 41,025 | 2,183,761 |
| Capital One Financial Corp. | 8,037 | 643,040 |
| MBNA Corp. | 45,052 | 1,178,560 |
| Providian Financial Corp.* | 9,516 | 167,767 |
| SLM Corp. | 15,078 | 765,963 |
| | | **4,939,091** |
| **Diversified Financial Services 4.8%** | | |
| CIT Group, Inc. | 7,824 | 336,197 |
| Citigroup, Inc. | 177,957 | 8,226,952 |
| Countrywide Financial Corp. | 19,040 | 735,134 |
| Fannie Mae | 33,150 | 1,935,960 |
| Freddie Mac | 24,163 | 1,576,153 |
| JPMorgan Chase & Co. | 120,418 | 4,253,164 |
| MGIC Investment Corp. | 3,142 | 204,921 |
| Moody's Corp. | 8,952 | 402,482 |
| Principal Financial Group, Inc. | 9,611 | 402,701 |
| | | **18,073,664** |
| **Insurance 4.3%** | | |
| ACE Ltd. | 9,176 | 411,544 |
| AFLAC, Inc. | 16,237 | 702,737 |
| Allstate Corp. | 24,156 | 1,443,321 |
| Ambac Financial Group, Inc. | 4,228 | 294,945 |
| American International Group, Inc. | 88,592 | 5,147,195 |
| Aon Corp. | 10,283 | 257,486 |
| Chubb Corp. | 7,185 | 615,108 |
| Cincinnati Financial Corp. | 5,401 | 213,664 |
| Hartford Financial Services Group, Inc. | 10,683 | 798,875 |
| Jefferson-Pilot Corp. | 4,408 | 222,251 |
| Lincoln National Corp. | 5,638 | 264,535 |
| Loews Corp. | 5,090 | 394,475 |
| Marsh & McLennan Companies, Inc. | 17,113 | 474,030 |
| MBIA, Inc. | 5,464 | 324,070 |
| MetLife, Inc. | 26,432 | 1,187,854 |
| Progressive Corp. | 6,464 | 638,708 |
| Prudential Financial, Inc. | 18,763 | 1,231,979 |

| | Shares | Value ($) |
|---|---|---|
| Safeco Corp. | 4,118 | 223,772 |
| The St. Paul Travelers Companies, Inc. | 21,615 | 854,441 |
| Torchmark Corp. | 3,510 | 183,222 |
| UnumProvident Corp. | 9,316 | 170,669 |
| XL Capital Ltd. "A" | 4,777 | 355,504 |
| | | **16,410,385** |
| **Real Estate 0.6%** | | |
| Apartment Investment & Management Co. "A" (REIT) | 3,100 | 126,852 |
| Archstone-Smith Trust (REIT) | 6,100 | 235,582 |
| Equity Office Properties Trust (REIT) | 15,220 | 503,782 |
| Equity Residential (REIT) | 9,130 | 336,167 |
| Plum Creek Timber Co., Inc. (REIT) | 5,800 | 210,540 |
| ProLogis (REIT) | 5,700 | 229,368 |
| Simon Property Group, Inc. (REIT) | 8,341 | 604,639 |
| | | **2,246,930** |
| **Health Care 13.2%** | | |
| **Biotechnology 1.2%** | | |
| Amgen, Inc.* | 43,308 | 2,618,402 |
| Applera Corp. — Applied Biosystems Group | 6,329 | 124,492 |
| Biogen Idec, Inc.* | 10,970 | 377,917 |
| Chiron Corp.* | 4,760 | 166,076 |
| Genzyme Corp.* | 9,003 | 540,990 |
| Gilead Sciences, Inc.* | 14,178 | 623,690 |
| MedImmune, Inc.* | 9,575 | 255,844 |
| | | **4,707,411** |
| **Health Care Equipment & Supplies 2.2%** | | |
| Bausch & Lomb, Inc. | 1,736 | 144,088 |
| Baxter International, Inc. | 20,803 | 771,791 |
| Becton, Dickinson & Co. | 8,178 | 429,100 |
| Biomet, Inc. | 9,418 | 326,240 |
| Boston Scientific Corp.* | 26,965 | 728,055 |
| C.R. Bard, Inc. | 3,398 | 226,001 |
| Fisher Scientific International, Inc.* | 3,808 | 247,139 |
| Guidant Corp. | 10,586 | 712,438 |
| Hospira, Inc.* | 5,040 | 196,560 |
| Medtronic, Inc. | 42,225 | 2,186,833 |
| Millipore Corp.* | 1,615 | 91,619 |
| PerkinElmer, Inc. | 4,136 | 78,170 |
| St. Jude Medical, Inc.* | 11,644 | 507,795 |
| Stryker Corp. | 13,480 | 641,109 |
| Thermo Electron Corp.* | 5,205 | 139,858 |
| Waters Corp.* | 3,900 | 144,963 |
| Zimmer Holdings, Inc.* | 8,820 | 671,819 |
| | | **8,243,578** |
| **Health Care Providers & Services 2.7%** | | |
| Aetna, Inc. | 9,736 | 806,336 |
| AmerisourceBergen Corp. | 3,807 | 263,254 |
| Cardinal Health, Inc. | 14,351 | 826,331 |
| Caremark Rx, Inc.* | 16,277 | 724,652 |
| CIGNA Corp. | 4,835 | 517,490 |
| Express Scripts, Inc.* | 5,934 | 296,581 |
| HCA, Inc. | 14,700 | 833,049 |
| Health Management Associates, Inc. "A" | 7,902 | 206,874 |
| Humana, Inc.* | 5,175 | 205,655 |
| IMS Health, Inc. | 7,530 | 186,518 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Laboratory Corp. of America Holdings* | 4,391 | 219,111 |
| Manor Care, Inc. | 2,838 | 112,754 |
| McKesson Corp. | 10,790 | 483,284 |
| Medco Health Solutions, Inc.* | 9,898 | 528,157 |
| Quest Diagnostics, Inc. | 5,972 | 318,128 |
| Tenet Healthcare Corp.* | 15,150 | 185,436 |
| UnitedHealth Group, Inc. | 43,608 | 2,273,721 |
| WellPoint, Inc.* | 20,460 | 1,424,834 |
| | | **10,412,165** |
| **Pharmaceuticals 7.1%** | | |
| Abbott Laboratories | 54,282 | 2,660,361 |
| Allergan, Inc. | 4,262 | 363,293 |
| Bristol-Myers Squibb Co. | 68,416 | 1,709,032 |
| Eli Lilly & Co. | 39,437 | 2,197,035 |
| Forest Laboratories, Inc.* | 11,495 | 446,581 |
| Johnson & Johnson | 101,116 | 6,572,540 |
| King Pharmaceuticals, Inc.* | 7,865 | 81,953 |
| Merck & Co., Inc. | 74,897 | 2,306,827 |
| Mylan Laboratories, Inc. | 8,736 | 168,080 |
| Pfizer, Inc. | 254,646 | 7,023,137 |
| Schering-Plough Corp. | 51,850 | 988,261 |
| Watson Pharmaceuticals, Inc.* | 3,555 | 105,086 |
| Wyeth | 46,576 | 2,072,632 |
| | | **26,694,818** |
| **Industrials 11.1%** | | |
| **Aerospace & Defense 2.3%** | | |
| Boeing Co. | 28,808 | 1,901,328 |
| General Dynamics Corp. | 7,267 | 796,027 |
| Goodrich Corp. | 3,861 | 158,147 |
| Honeywell International, Inc. | 30,172 | 1,105,200 |
| L-3 Communications Holdings, Inc. | 3,700 | 283,346 |
| Lockheed Martin Corp. | 14,493 | 940,161 |
| Northrop Grumman Corp. | 11,589 | 640,292 |
| Raytheon Co. | 14,596 | 570,996 |
| Rockwell Collins, Inc. | 5,731 | 273,254 |
| United Technologies Corp. | 35,600 | 1,828,060 |
| | | **8,496,811** |
| **Air Freight & Logistics 1.0%** | | |
| FedEx Corp. | 9,805 | 794,303 |
| Ryder System, Inc. | 2,052 | 75,103 |
| United Parcel Service, Inc. "B" | 39,086 | 2,703,188 |
| | | **3,572,594** |
| **Airlines 0.1%** | | |
| Delta Air Lines, Inc.* (e) | 4,521 | 16,999 |
| Southwest Airlines Co. | 25,370 | 353,404 |
| | | **370,403** |
| **Building Products 0.2%** | | |
| American Standard Companies, Inc. | 5,864 | 245,819 |
| Masco Corp. | 16,265 | 516,576 |
| | | **762,395** |
| **Commercial Services & Supplies 0.7%** | | |
| Allied Waste Industries, Inc.* | 9,175 | 72,758 |
| Avery Dennison Corp. | 3,286 | 174,026 |
| Cendant Corp. | 34,592 | 773,823 |
| Cintas Corp. | 5,142 | 198,481 |
| Equifax, Inc. | 4,391 | 156,803 |
| Monster Worldwide, Inc.* | 3,866 | 110,877 |
| Pitney Bowes, Inc. | 7,446 | 324,273 |
| R.R. Donnelley & Sons Co. | 6,929 | 239,120 |
| Robert Half International, Inc. | 5,200 | 129,844 |
| Waste Management, Inc. | 19,672 | 557,504 |
| | | **2,737,509** |
| **Construction & Engineering 0.1%** | | |
| Fluor Corp. | 2,725 | **156,933** |
| **Electrical Equipment 0.4%** | | |
| American Power Conversion Corp. | 7,014 | 165,460 |
| Cooper Industries Ltd. "A" | 2,964 | 189,400 |
| Emerson Electric Co. | 14,452 | 905,129 |
| Rockwell Automation, Inc. | 5,647 | 275,065 |
| | | **1,535,054** |
| **Industrial Conglomerates 4.4%** | | |
| 3M Co. | 25,936 | 1,875,173 |
| General Electric Co. | 361,832 | 12,537,479 |
| Textron, Inc. | 4,341 | 329,265 |
| Tyco International Ltd. | 68,047 | 1,986,972 |
| | | **16,728,889** |
| **Machinery 1.4%** | | |
| Caterpillar, Inc. | 11,318 | 1,078,719 |
| Cummins, Inc. | 1,778 | 132,657 |
| Danaher Corp. | 10,165 | 532,036 |
| Deere & Co. | 8,512 | 557,451 |
| Dover Corp. | 6,602 | 240,181 |
| Eaton Corp. | 5,905 | 353,709 |
| Illinois Tool Works, Inc. | 10,047 | 800,545 |
| Ingersoll-Rand Co. "A" | 6,361 | 453,857 |
| ITT Industries, Inc. | 2,997 | 292,597 |
| Navistar International Corp.* | 2,871 | 91,872 |
| PACCAR, Inc. | 6,409 | 435,812 |
| Pall Corp. | 3,953 | 120,013 |
| Parker-Hannifin Corp. | 3,879 | 240,537 |
| | | **5,329,986** |
| **Road & Rail 0.5%** | | |
| Burlington Northern Santa Fe Corp. | 13,738 | 646,785 |
| CSX Corp. | 6,974 | 297,511 |
| Norfolk Southern Corp. | 12,786 | 395,854 |
| Union Pacific Corp. | 9,681 | 627,329 |
| | | **1,967,479** |
| **Trading Companies & Distributors 0.0%** | | |
| W.W. Grainger, Inc. | 2,809 | **153,905** |
| **Information Technology 15.1%** | | |
| **Communications Equipment 2.6%** | | |
| ADC Telecommunications, Inc.* | 3,730 | 81,202 |
| Andrew Corp.* | 5,280 | 67,373 |
| Avaya, Inc.* | 14,862 | 123,652 |
| CIENA Corp.* | 23,960 | 50,076 |
| Cisco Systems, Inc.* | 219,995 | 4,204,104 |
| Comverse Technologies, Inc.* | 7,708 | 182,294 |
| Corning, Inc.* | 49,673 | 825,565 |
| JDS Uniphase Corp.* | 46,876 | 71,252 |
| Lucent Technologies, Inc.* | 149,525 | 435,118 |
| Motorola, Inc. | 85,899 | 1,568,516 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| QUALCOMM, Inc. | 55,620 | 1,836,016 |
| Scientific-Atlanta, Inc. | 4,977 | 165,585 |
| Tellabs, Inc.* | 18,216 | 158,479 |
| | | **9,769,232** |
| **Computers & Peripherals 3.6%** | | |
| Apple Computer, Inc.* | 27,562 | 1,014,557 |
| Dell, Inc.* | 85,109 | 3,362,657 |
| EMC Corp.* | 84,167 | 1,153,930 |
| Gateway, Inc.* | 9,677 | 31,934 |
| Hewlett-Packard Co. | 100,601 | 2,365,130 |
| International Business Machines Corp. | 55,547 | 4,121,587 |
| Lexmark International, Inc. "A"* | 4,068 | 263,728 |
| NCR Corp.* | 6,051 | 212,511 |
| Network Appliance, Inc.* | 13,184 | 372,712 |
| QLogic Corp.* | 3,609 | 111,410 |
| Sun Microsystems, Inc.* | 120,481 | 449,394 |
| | | **13,459,550** |
| **Electronic Equipment & Instruments 0.3%** | | |
| Agilent Technologies, Inc.* | 13,979 | 321,797 |
| Jabil Circuit, Inc.* | 6,047 | 185,824 |
| Molex, Inc. | 5,417 | 141,059 |
| Sanmina-SCI Corp.* | 21,017 | 114,963 |
| Solectron Corp.* | 31,507 | 119,412 |
| Symbol Technologies, Inc. | 7,650 | 75,505 |
| Tektronix, Inc. | 2,824 | 65,714 |
| | | **1,024,274** |
| **Internet Software & Services 0.4%** | | |
| Yahoo!, Inc.* | 45,388 | **1,572,694** |
| **IT Consulting & Services 1.1%** | | |
| Affiliated Computer Services, Inc. "A"* | 4,073 | 208,130 |
| Automatic Data Processing, Inc. | 20,108 | 843,933 |
| Computer Sciences Corp.* | 6,144 | 268,493 |
| Convergys Corp.* | 4,572 | 65,014 |
| Electronic Data Systems Corp. | 16,591 | 319,377 |
| First Data Corp. | 28,493 | 1,143,709 |
| Fiserv, Inc.* | 7,441 | 319,591 |
| Paychex, Inc. | 13,311 | 433,140 |
| Sabre Holdings Corp. | 4,262 | 85,027 |
| SunGard Data Systems, Inc.* | 10,578 | 372,028 |
| Unisys Corp.* | 10,880 | 68,870 |
| | | **4,127,312** |
| **Office Electronics 0.1%** | | |
| Xerox Corp.* | 31,088 | **428,704** |
| **Semiconductors & Semiconductor Equipment 3.2%** | | |
| Advanced Micro Devices, Inc.* | 14,660 | 254,204 |
| Altera Corp.* | 14,086 | 279,185 |
| Analog Devices, Inc. | 12,035 | 449,026 |
| Applied Materials, Inc. | 55,230 | 893,621 |
| Applied Micro Circuits Corp.* | 10,100 | 25,856 |
| Broadcom Corp. "A"* | 9,325 | 331,131 |
| Freescale Semiconductor, Inc. "B"* | 12,655 | 268,033 |
| Intel Corp. | 211,645 | 5,515,469 |
| KLA-Tencor Corp. | 7,345 | 320,976 |
| Linear Technology Corp. | 11,514 | 422,449 |
| LSI Logic Corp.* | 12,513 | 106,235 |

| | Shares | Value ($) |
|---|---|---|
| Maxim Integrated Products, Inc. | 11,601 | 443,274 |
| Micron Technology, Inc.* | 19,881 | 202,985 |
| National Semiconductor Corp. | 11,526 | 253,918 |
| Novellus Systems, Inc.* | 5,714 | 141,193 |
| NVIDIA Corp.* | 6,407 | 171,195 |
| PMC-Sierra, Inc.* | 8,286 | 77,308 |
| Teradyne, Inc.* | 6,304 | 75,459 |
| Texas Instruments, Inc. | 57,688 | 1,619,302 |
| Xilinx, Inc. | 12,946 | 330,123 |
| | | **12,180,942** |
| **Software 3.8%** | | |
| Adobe Systems, Inc. | 15,810 | 452,482 |
| Autodesk, Inc. | 8,448 | 290,358 |
| BMC Software, Inc.* | 7,206 | 129,348 |
| Citrix Systems, Inc.* | 6,698 | 145,079 |
| Computer Associates International, Inc. | 17,309 | 475,651 |
| Compuware Corp.* | 12,246 | 88,049 |
| Electronic Arts, Inc.* | 10,658 | 603,349 |
| Intuit, Inc.* | 6,985 | 315,093 |
| Mercury Interactive Corp.* | 3,341 | 128,161 |
| Microsoft Corp. | 345,301 | 8,577,277 |
| Novell, Inc.* | 15,436 | 95,703 |
| Oracle Corp.* | 156,178 | 2,061,550 |
| Parametric Technology Corp.* | 7,591 | 48,430 |
| Siebel Systems, Inc.* | 19,597 | 174,413 |
| Symantec Corp.* | 23,409 | 508,912 |
| VERITAS Software Corp.* | 13,704 | 334,378 |
| | | **14,428,233** |
| **Materials 2.9%** | | |
| **Chemicals 1.6%** | | |
| Air Products & Chemicals, Inc. | 7,339 | 442,542 |
| Dow Chemical Co. | 33,345 | 1,484,853 |
| E.I. du Pont de Nemours & Co. | 35,067 | 1,508,232 |
| Eastman Chemical Co. | 2,730 | 150,559 |
| Ecolab, Inc. | 7,066 | 228,656 |
| Engelhard Corp. | 4,000 | 114,200 |
| Great Lakes Chemical Corp. | 1,658 | 52,177 |
| Hercules, Inc.* | 3,707 | 52,454 |
| International Flavors & Fragrances, Inc. | 2,843 | 102,973 |
| Monsanto Co. | 8,637 | 543,008 |
| PPG Industries, Inc. | 6,650 | 417,354 |
| Praxair, Inc. | 10,385 | 483,941 |
| Rohm & Haas Co. | 6,352 | 294,352 |
| Sigma-Aldrich Corp. | 2,220 | 124,409 |
| | | **5,999,710** |
| **Construction Materials 0.1%** | | |
| Vulcan Materials Co. | 3,325 | **216,092** |
| **Containers & Packaging 0.2%** | | |
| Ball Corp. | 3,536 | 127,155 |
| Bemis Co., Inc. | 3,472 | 92,147 |
| Pactiv Corp.* | 4,819 | 103,994 |
| Sealed Air Corp.* | 2,695 | 134,184 |
| Temple-Inland, Inc. | 3,736 | 138,792 |
| | | **596,272** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Metals & Mining 0.6%** | | |
| Alcoa, Inc. | 30,105 | 786,644 |
| Allegheny Technologies, Inc. | 3,767 | 83,100 |
| Freeport-McMoRan Copper & Gold, Inc. "B" | 5,796 | 217,002 |
| Newmont Mining Corp. | 15,332 | 598,408 |
| Nucor Corp. | 5,165 | 235,627 |
| Phelps Dodge Corp. | 3,600 | 333,000 |
| United States Steel Corp. | 4,359 | 149,819 |
| | | **2,403,600** |
| **Paper & Forest Products 0.4%** | | |
| Georgia-Pacific Corp. | 8,378 | 266,421 |
| International Paper Co. | 16,810 | 507,830 |
| Louisiana-Pacific Corp. | 3,573 | 87,824 |
| MeadWestvaco Corp. | 5,921 | 166,025 |
| Weyerhaeuser Co. | 8,945 | 569,349 |
| | | **1,597,449** |
| **Telecommunication Services 3.1%** | | |
| **Diversified Telecommunication Services 2.8%** | | |
| ALLTEL Corp. | 11,208 | 698,034 |
| AT&T Corp. | 29,196 | 555,892 |
| BellSouth Corp. | 64,641 | 1,717,511 |
| CenturyTel, Inc. | 4,369 | 151,298 |
| Citizens Communications Co. | 10,890 | 146,362 |
| Qwest Communications International, Inc.* | 54,249 | 201,264 |
| SBC Communications, Inc. | 113,642 | 2,698,998 |
| Sprint Corp. | 49,292 | 1,236,736 |
| Verizon Communications, Inc. | 93,499 | 3,230,390 |
| | | **10,636,485** |
| **Wireless Telecommunication Services 0.3%** | | |
| Nextel Communications, Inc. "A"* | 39,580 | **1,278,830** |
| **Utilities 3.4%** | | |
| **Electric Utilities 2.3%** | | |
| Allegheny Energy, Inc.* | 4,710 | 118,786 |
| Ameren Corp. | 6,269 | 346,676 |
| American Electric Power Co. | 14,176 | 522,669 |
| CenterPoint Energy, Inc. | 10,121 | 133,698 |
| Cinergy Corp. | 5,749 | 257,670 |
| Consolidated Edison, Inc. | 7,722 | 361,698 |
| DTE Energy Co. | 5,657 | 264,578 |
| Edison International | 12,267 | 497,427 |
| Entergy Corp. | 8,056 | 608,631 |
| Exelon Corp. | 23,692 | 1,216,110 |
| FirstEnergy Corp. | 10,770 | 518,145 |
| FPL Group, Inc. | 12,784 | 537,695 |
| PG&E Corp. | 13,449 | 504,875 |
| Pinnacle West Capital Corp. | 3,008 | 133,706 |
| PPL Corp. | 6,104 | 362,455 |
| Progress Energy, Inc. | 7,923 | 358,437 |
| Southern Co. | 27,104 | 939,696 |
| TECO Energy, Inc. | 5,400 | 102,114 |
| TXU Corp. | 7,856 | 652,755 |
| Xcel Energy, Inc. | 12,942 | 252,628 |
| | | **8,690,449** |
| **Gas Utilities 0.1%** | | |
| KeySpan Corp. | 5,214 | 212,210 |
| Nicor, Inc. | 1,484 | 61,096 |
| NiSource, Inc. | 8,800 | 217,624 |
| Peoples Energy Corp. | 1,128 | 49,023 |
| | | **539,953** |
| **Independent Power Producers & Energy Traders 0.5%** | | |
| AES Corp.* | 20,948 | 343,128 |
| Calpine Corp.* (e) | 23,001 | 78,203 |
| Constellation Energy Group | 5,710 | 329,410 |
| Duke Energy Corp. | 33,687 | 1,001,515 |
| Dynegy, Inc. "A"* | 11,537 | 56,070 |
| | | **1,808,326** |
| **Multi-Utilities 0.5%** | | |
| CMS Energy Corp.* | 6,256 | 94,215 |
| Dominion Resources, Inc. | 12,401 | 910,108 |
| Public Service Enterprise Group, Inc. | 8,875 | 539,778 |
| Sempra Energy | 7,877 | 325,399 |
| | | **1,869,500** |
| **Total Common Stocks** (Cost $321,886,465) | | **374,271,816** |

| | Principal Amount ($) | Value ($) |
|---|---|---|
| **US Government Backed 0.2%** | | |
| US Treasury Bills, 2.869%**, 7/14/2005 (c) (Cost $594,397) | 595,000 | **594,397** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 0.2%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (d) (f) (Cost $654,625) | 654,625 | **654,625** |
| **Cash Equivalents 0.8%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $3,130,093) | 3,130,093 | **3,130,093** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $326,265,580) (a) | 100.2 | **378,650,929** |
| **Other Assets and Liabilities, Net** | (0.2) | **(704,759)** |
| **Net Assets** | 100.0 | **377,946,170** |

*The accompanying notes are an integral part of the financial statements.*

## Notes to SVS Index 500 Portfolio of Investments

* *Non-income producing security.*

** *Annualized yield at time of purchase; not a coupon rate.*

(a) *The cost for federal income tax purposes was $350,648,130. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $28,002,799. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $66,754,440 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $38,751,641.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *At June 30, 2005, this security, in part or in whole, has been segregated to cover initial margin requirements for open futures contracts.*

(d) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $635,116, which is 0.2% of net assets.*

(f) *Represents collateral held in connection with securities lending.*

*REIT: Real Estate Investment Trust*

*At June 30, 2005, open futures contracts purchased were as follows:*

| Futures | Expiration Date | Contracts | Aggregated Face Value ($) | Value ($) | Net Unrealized Depreciation ($) |
|---|---|---|---|---|---|
| S&P 500 Index | 9/15/2005 | 6 | 1,807,611 | 1,793,250 | (14,361) |
| S&P Mini 500 Index | 9/16/2005 | 41 | 2,469,450 | 2,450,775 | (18,675) |
| **Total net unrealized depreciation** | | | | | **(33,036)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $322,480,862) — including $635,116 of securities loaned | $ | 374,866,211 |
| Investment in Scudder Daily Assets Fund Institutional (cost $654,625)* | | 654,625 |
| Investment in Scudder Cash Management QP Trust (cost $3,130,093) | | 3,130,093 |
| Total investments in securities, at value (cost $326,265,580) | | 378,650,929 |
| Dividends receivable | | 450,896 |
| Interest receivable | | 14,869 |
| Receivable for Portfolio shares sold | | 3,857 |
| Other assets | | 5,992 |
| Total assets | | 379,126,543 |

### Liabilities

| | | |
|---|---|---|
| Payable upon return of securities loaned | | 654,625 |
| Payable for Portfolio shares redeemed | | 340,807 |
| Payable for daily variation margin on open futures contracts | | 26,270 |
| Accrued management fee | | 54,853 |
| Other accrued expenses and payables | | 103,818 |
| Total liabilities | | 1,180,373 |
| **Net assets, at value** | **$** | **377,946,170** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 2,599,237 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 52,385,349 |
| Futures | | (33,036) |
| Accumulated net realized gain (loss) | | (51,273,311) |
| Paid-in capital | | 374,267,931 |
| **Net assets, at value** | **$** | **377,946,170** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($309,789,704 ÷ 34,886,154 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **8.88** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($68,156,466 ÷ 7,685,925 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **8.87** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends | $ | 3,383,562 |
| Interest | | 7,691 |
| Interest — Scudder Cash Management QP Trust | | 46,785 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 6,510 |
| Total Income | | 3,444,548 |
| Expenses: | | |
| Management fee | | 372,317 |
| Custodian and accounting fees | | 95,070 |
| Distribution service fees (Class B) | | 79,807 |
| Record keeping fees (Class B) | | 40,081 |
| Auditing | | 21,303 |
| Legal | | 10,301 |
| Trustees' fees and expenses | | 4,267 |
| Reports to shareholders | | 24,848 |
| Registration fees | | 100 |
| Other | | 23,753 |
| Total expenses, before expense reductions | | 671,847 |
| Expense reductions | | (15,403) |
| Total expenses, after expense reductions | | 656,444 |
| **Net investment income (loss)** | | **2,788,104** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | (5,431,772) |
| Futures | | 246,993 |
| | | (5,184,779) |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (258,863) |
| Futures | | (189,060) |
| | | (447,923) |
| **Net gain (loss) on investment transactions** | | **(5,632,702)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(2,844,598)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 2,788,104 | $ 5,746,757 |
| Net realized gain (loss) on investment transactions | (5,184,779) | (10,636,563) |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (447,923) | 41,959,033 |
| Net increase (decrease) in net assets resulting from operations | (2,844,598) | 37,069,227 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (4,988,162) | (3,148,196) |
| Class B | (767,964) | (262,259) |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 26,773,925 | 58,800,030 |
| Reinvestment of distributions | 4,988,162 | 3,148,196 |
| Cost of shares redeemed | (47,402,468) | (65,809,853) |
| Net increase (decrease) in net assets from Class A share transactions | (15,640,381) | (3,861,627) |
| **Class B** | | |
| Proceeds from shares sold | 13,193,390 | 43,175,923 |
| Reinvestment of distributions | 767,964 | 262,259 |
| Cost of shares redeemed | (13,283,781) | (13,817,023) |
| Net increase (decrease) in net assets from Class B share transactions | 677,573 | 29,621,159 |
| **Increase (decrease) in net assets** | (23,563,532) | 59,418,304 |
| Net assets at beginning of period | 401,509,702 | 342,091,398 |
| Net assets at end of period (including undistributed net investment income of $2,599,237 and $5,567,259, respectively) | **$ 377,946,170** | **$ 401,509,702** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 36,513,515 | 36,967,597 |
| Shares sold | 3,073,500 | 6,987,566 |
| Shares issued to shareholders in reinvestment of distributions | 568,775 | 375,232 |
| Shares redeemed | (5,269,636) | (7,816,880) |
| Net increase (decrease) in Portfolio shares | (1,627,361) | (454,082) |
| Shares outstanding at end of period | **34,886,154** | **36,513,515** |
| **Class B** | | |
| Shares outstanding at beginning of period | 7,543,430 | 4,013,326 |
| Shares sold | 1,517,768 | 5,136,505 |
| Shares issued to shareholders in reinvestment of distributions | 87,667 | 31,296 |
| Shares redeemed | (1,462,940) | (1,637,697) |
| Net increase (decrease) in Portfolio shares | 142,495 | 3,530,104 |
| Shares outstanding at end of period | **7,685,925** | **7,543,430** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 9.12** | **$ 8.35** | **$ 6.61** | **$ 8.55** | **$ 9.78** | **$ 10.96** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | .07 | .14 | .09 | .09 | .08 | .10 |
| Net realized and unrealized gain (loss) on investment transactions | (.16) | .72 | 1.73 | (1.99) | (1.26) | (1.18) |
| **Total from investment operations** | (.09) | .86 | 1.82 | (1.90) | (1.18) | (1.08) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.15) | (.09) | (.08) | (.04) | (.05) | (.05) |
| Net realized gains on investment transactions | — | — | — | — | — | (.05) |
| **Total distributions** | (.15) | (.09) | (.08) | (.04) | (.05) | (.10) |
| **Net asset value, end of period** | **$ 8.88** | **$ 9.12** | **$ 8.35** | **$ 6.61** | **$ 8.55** | **$ 9.78** |
| Total Return (%) | (.97)** | 10.38 | 27.93 | (22.34) | (12.05)[d] | (9.93)[d] |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 310 | 333 | 309 | 233 | 219 | 102 |
| Ratio of expenses before expense reductions (%) | .30* | .41 | .49 | .48 | .65 | .88 |
| Ratio of expenses after expense reductions (%) | .30* | .41 | .49 | .48 | .55 | .54 |
| Ratio of net investment income (loss) (%) | 1.55* | 1.64 | 1.31 | 1.16 | .88 | .90 |
| Portfolio turnover rate (%) | 14* | 13 | 8 | 6 | 13 | 20 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share information, for the periods prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 9.09** | **$ 8.32** | **$ 6.59** | **$ 7.21** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .05 | .11 | .06 | .05 |
| Net realized and unrealized gain (loss) on investment transactions | (.15) | .72 | 1.74 | (.67) |
| **Total from investment operations** | (.10) | .83 | 1.80 | (.62) |
| *Less distributions from:* | | | | |
| Net investment income | (.12) | (.06) | (.07) | — |
| **Net asset value, end of period** | **$ 8.87** | **$ 9.09** | **$ 8.32** | **$ 6.59** |
| Total Return (%) | (1.12)[d]** | 9.98[d] | 27.57 | (8.60)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 68 | 69 | 33 | 1 |
| Ratio of expenses before expense reductions (%) | .67* | .79 | .88 | .69* |
| Ratio of expenses after expense reductions (%) | .63* | .78 | .88 | .69* |
| Ratio of net investment income (loss) (%) | 1.22* | 1.28 | .92 | 1.42* |
| Portfolio turnover rate (%) | 14* | 13 | 8 | 6 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

## SVS INVESCO Dynamic Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,013.00 | $ 1,012.00 |
| Expenses Paid per $1,000* | $ 6.49 | $ 8.38 |

| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,018.35 | $ 1,016.46 |
| Expenses Paid per $1,000* | $ 6.51 | $ 8.40 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS INVESCO Dynamic Growth Portfolio | 1.30% | 1.68% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS INVESCO Dynamic Growth Portfolio

For the first half of 2005, SVS INVESCO Dynamic Growth Portfolio slightly underperformed its benchmark, the Russell Midcap® Growth Index. Whereas the portfolio returned 1.30% (Class A shares, unadjusted for contract charges), the index returned 1.70%. During the six-month period, we concentrated positions in the information technology, health care and consumer discretionary sectors. In addition, we added to the portfolio's health care, consumer discretionary, information technology, energy and consumer staples holdings, while reducing exposure to industrials and financials.

During the period, the information technology sector was the largest contributor to the portfolio's performance relative to the Russell Midcap® Growth Index. Overweight positions in the telecommunications and energy sectors also contributed to relative performance. Health care was the largest detractor from performance, due mainly to stock selection in the health care equipment and supplies industry, which performed below expectations. Stock picks in the industrials sector also detracted from the portfolio's performance relative to the benchmark.

Effective August 1, 2005, Salomon Brothers Asset Management Inc. will become the subadvisor to the portfolio.

Paul J. Rasplicka
Lead Manager

INVESCO Institutional (N.A.), Inc., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

Portfolio returns during the period reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

### Risk Considerations

Stocks of medium-sized companies involve greater risk as they often have limited product lines, markets, or financial resources and may be sensitive to erratic and abrupt market movements more so than securities of larger, more-established companies. Additionally, the portfolio may also focus its investments on certain industry sectors, thereby increasing its vulnerability to any single industry or regulatory development. All of these factors may result in greater share price volatility. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell Midcap® Growth Index is an unmanaged index composed of common stocks of midcap companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS INVESCO Dynamic Growth Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 96% | 94% |
| Cash Equivalents | 4% | 5% |
| Exchange Traded Fund | — | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Consumer Discretionary | 23% | 21% |
| Information Technology | 20% | 22% |
| Health Care | 17% | 17% |
| Energy | 10% | 6% |
| Industrials | 10% | 16% |
| Financials | 9% | 11% |
| Telecommunication Services | 4% | 3% |
| Consumer Staples | 4% | 1% |
| Materials | 3% | 3% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 184. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS INVESCO Dynamic Growth Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 96.3%** | | |
| **Consumer Discretionary 22.6%** | | |
| **Diversified Consumer Services 1.1%** | | |
| Career Education Corp.* | 12,000 | **439,320** |
| **Hotels Restaurants & Leisure 4.8%** | | |
| Hilton Hotels Corp. | 29,500 | 703,575 |
| Starwood Hotels & Resorts Worldwide, Inc. | 11,000 | 644,270 |
| Station Casinos, Inc. | 9,400 | 624,160 |
| | | **1,972,005** |
| **Household Durables 2.2%** | | |
| Fortune Brands, Inc. | 2,200 | 195,360 |
| Harman International Industries, Inc. | 2,500 | 203,400 |
| Pulte Homes, Inc. | 6,200 | 522,350 |
| | | **921,110** |
| **Media 1.5%** | | |
| Omnicom Group, Inc. | 5,100 | 407,286 |
| Univision Communications, Inc. "A"* | 8,200 | 225,910 |
| | | **633,196** |
| **Multiline Retail 3.5%** | | |
| Dollar General Corp. (e) | 22,300 | 454,028 |
| Kohl's Corp.* | 9,700 | 542,327 |
| Nordstrom, Inc. | 6,900 | 468,993 |
| | | **1,465,348** |
| **Specialty Retail 6.6%** | | |
| Abercrombie & Fitch Co. "A" | 7,100 | 487,770 |
| Advance Auto Parts, Inc.* | 6,600 | 426,030 |
| Office Depot, Inc.* | 20,300 | 463,652 |
| PETCO Animal Supplies, Inc.* | 13,500 | 395,820 |
| Ross Stores, Inc. | 18,100 | 523,271 |
| Staples, Inc. | 20,000 | 426,400 |
| | | **2,722,943** |
| **Textiles, Apparel & Luxury Goods 2.9%** | | |
| Coach, Inc.* | 17,000 | 570,690 |
| Polo Ralph Lauren Corp. | 14,900 | 642,339 |
| | | **1,213,029** |
| **Consumer Staples 3.5%** | | |
| **Beverages 0.8%** | | |
| Constellation Brands, Inc. "A"* | 11,600 | **342,200** |
| **Food & Staples Retailing 1.1%** | | |
| BJ's Wholesale Club, Inc.* | 7,400 | 240,426 |
| Shoppers Drug Mart Corp. | 6,300 | 218,536 |
| | | **458,962** |
| **Food Products 0.5%** | | |
| TreeHouse Foods, Inc.* | 6,900 | **196,719** |
| **Household Products 1.1%** | | |
| Jarden Corp.* (e) | 8,400 | **452,928** |

| | Shares | Value ($) |
|---|---|---|
| **Energy 9.5%** | | |
| **Energy Equipment & Services 5.3%** | | |
| Grant Prideco, Inc.* | 13,400 | 354,430 |
| Nabors Industries Ltd.* | 6,900 | 418,278 |
| National-Oilwell Varco, Inc.* | 9,700 | 461,138 |
| Noble Corp. | 7,500 | 461,325 |
| Weatherford International Ltd.* | 8,500 | 492,830 |
| | | **2,188,001** |
| **Oil, Gas & Consumable Fuels 4.2%** | | |
| Murphy Oil Corp. | 9,900 | 517,077 |
| Southwestern Energy Co.* | 4,500 | 211,410 |
| Talisman Energy, Inc. | 13,400 | 503,438 |
| Williams Companies, Inc. | 26,900 | 511,100 |
| | | **1,743,025** |
| **Financials 8.5%** | | |
| **Banks 1.4%** | | |
| Hudson City Bancorp, Inc. | 28,800 | 328,608 |
| Signature Bank* (e) | 9,400 | 229,360 |
| | | **557,968** |
| **Capital Markets 1.7%** | | |
| Legg Mason, Inc. | 5,450 | 567,399 |
| T. Rowe Price Group, Inc. | 2,400 | 150,240 |
| | | **717,639** |
| **Diversified Financial Services 2.2%** | | |
| CapitalSource, Inc.* (e) | 23,700 | 465,231 |
| Chicago Mercantile Exchange | 1,500 | 443,250 |
| | | **908,481** |
| **Real Estate 3.2%** | | |
| Aames Investment Corp. (REIT) | 34,900 | 339,228 |
| CB Richard Ellis Group, Inc. "A"* | 12,800 | 561,408 |
| KKR Financial Corp. (REIT)* | 17,400 | 435,000 |
| | | **1,335,636** |
| **Health Care 16.0%** | | |
| **Biotechnology 3.0%** | | |
| Genzyme Corp.* | 6,800 | 408,612 |
| Gilead Sciences, Inc.* | 8,300 | 365,117 |
| Invitrogen Corp.* | 2,600 | 216,554 |
| Martek Biosciences Corp.* (e) | 6,100 | 231,495 |
| | | **1,221,778** |
| **Health Care Equipment & Supplies 7.1%** | | |
| Biomet, Inc. | 11,900 | 412,216 |
| Cooper Companies, Inc. (e) | 5,600 | 340,816 |
| Gen-Probe, Inc.* | 2,900 | 105,067 |
| INAMED Corp.* | 3,300 | 221,001 |
| Kinetic Concepts, Inc.* | 6,800 | 408,000 |
| Mentor Corp. (e) | 5,000 | 207,400 |
| PerkinElmer, Inc. | 22,600 | 427,140 |
| Varian Medical Systems, Inc.* | 11,700 | 436,761 |
| Waters Corp.* | 10,300 | 382,851 |
| | | **2,941,252** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Health Care Providers & Services 4.7%** | | |
| AMERIGROUP Corp.* | 4,000 | 160,800 |
| Cerner Corp.* (e) | 3,100 | 210,707 |
| CIGNA Corp. | 2,500 | 267,575 |
| DaVita, Inc.* | 9,700 | 441,156 |
| Express Scripts, Inc.* | 7,200 | 359,856 |
| Henry Schein, Inc.* | 6,700 | 278,184 |
| Triad Hospitals, Inc.* | 4,100 | 224,024 |
| | | **1,942,302** |
| **Pharmaceuticals 1.2%** | | |
| Medicis Pharmaceutical Corp. "A" | 7,100 | 225,283 |
| MGI Pharma, Inc.* (e) | 13,200 | 287,232 |
| | | **512,515** |
| **Industrials 9.5%** | | |
| **Aerospace & Defense 1.1%** | | |
| L-3 Communications Holdings, Inc. | 6,200 | **474,796** |
| **Air Freight & Logistics 0.9%** | | |
| C.H. Robinson Worldwide, Inc. | 6,700 | **389,940** |
| **Commercial Services & Supplies 3.2%** | | |
| ChoicePoint, Inc.* | 10,700 | 428,535 |
| Corrections Corp. of America* | 15,500 | 608,375 |
| Iron Mountain, Inc.* (e) | 8,600 | 266,772 |
| | | **1,303,682** |
| **Construction & Engineering 0.8%** | | |
| Chicago Bridge & Iron Co., NV (New York Shares) (ADR) | 15,200 | **347,472** |
| **Electrical Equipment 1.0%** | | |
| Cooper Industries Ltd. "A" | 6,200 | **396,180** |
| **Machinery 1.4%** | | |
| Ingersoll-Rand Co. "A" | 2,900 | 206,915 |
| ITT Industries, Inc. | 3,600 | 351,468 |
| | | **558,383** |
| **Road & Rail 1.1%** | | |
| CSX Corp. | 5,400 | 230,364 |
| Swift Transportation Co., Inc.* (e) | 9,400 | 218,926 |
| | | **449,290** |
| **Information Technology 19.8%** | | |
| **Communications Equipment 4.0%** | | |
| ADC Telecommunications, Inc.* | 10,400 | 226,408 |
| Avaya, Inc.* | 17,600 | 146,432 |
| Comverse Technologies, Inc.* | 21,200 | 501,380 |
| Corning, Inc.* | 25,600 | 425,472 |
| Scientific-Atlanta, Inc. | 10,900 | 362,643 |
| | | **1,662,335** |
| **Computers & Peripherals 1.9%** | | |
| ATI Technologies, Inc.* | 13,000 | 154,050 |
| PalmOne, Inc.* (e) | 8,400 | 250,068 |
| QLogic Corp.* | 12,300 | 379,701 |
| | | **783,819** |
| **Electronic Equipment & Instruments 1.7%** | | |
| Amphenol Corp. "A" | 11,500 | 461,955 |
| Cogent, Inc.* | 8,000 | 228,400 |
| | | **690,355** |

| | Shares | Value ($) |
|---|---|---|
| **Internet Software & Services 1.2%** | | |
| Akamai Technologies, Inc.* (e) | 5,100 | 66,963 |
| VeriSign, Inc.* | 15,100 | 434,276 |
| | | **501,239** |
| **IT Consulting & Services 2.3%** | | |
| Alliance Data Systems Corp.* | 14,200 | 575,952 |
| Cognizant Technology Solutions Corp. "A"* | 8,200 | 386,466 |
| | | **962,418** |
| **Semiconductors & Semiconductor Equipment 4.8%** | | |
| Altera Corp.* | 18,833 | 373,270 |
| Analog Devices, Inc. | 5,400 | 201,474 |
| Microchip Technology, Inc. | 17,750 | 525,755 |
| National Semiconductor Corp. | 29,800 | 656,494 |
| Tessera Technologies, Inc.* | 7,200 | 240,552 |
| | | **1,997,545** |
| **Software 3.9%** | | |
| Amdocs Ltd.* | 15,800 | 417,594 |
| Autodesk, Inc. | 7,900 | 271,523 |
| Mercury Interactive Corp.* | 8,000 | 306,880 |
| MicroStrategy, Inc. "A"* (e) | 3,200 | 169,728 |
| NAVTEQ Corp.* | 11,400 | 423,852 |
| | | **1,589,577** |
| **Materials 3.1%** | | |
| **Chemicals** | | |
| Celanese Corp. "A"* (e) | 27,300 | 433,797 |
| Lyondell Chemical Co. | 7,900 | 208,718 |
| Praxair, Inc. | 5,300 | 246,980 |
| Rohm & Haas Co. | 8,700 | 403,158 |
| | | **1,292,653** |
| **Telecommunication Services 3.8%** | | |
| **Wireless Telecommunication Services** | | |
| American Tower Corp. "A"* (e) | 23,400 | 491,868 |
| Nextel Partners, Inc. "A"* (e) | 25,800 | 649,386 |
| SpectraSite, Inc.* | 6,000 | 446,580 |
| | | **1,587,834** |
| **Total Common Stocks** (Cost $32,983,070) | | **39,873,875** |

## Securities Lending Collateral 11.0%

| | | |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $4,544,825) | 4,544,825 | **4,544,825** |

## Cash Equivalents 3.6%

| | | |
|---|---|---|
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $1,480,202) | 1,480,202 | **1,480,202** |

*The accompanying notes are an integral part of the financial statements.*

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $39,008,097) (a) | 110.9 | **45,898,902** |
| **Other Assets and Liabilities, Net** | (10.9) | **(4,512,848)** |
| **Net Assets** | 100.0 | **41,386,054** |

## Notes to SVS INVESCO Dynamic Growth Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $39,084,979. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $6,813,923. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $7,711,654 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $897,731.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005, amounted to $4,432,042, which is 11.0% of net assets.*

*REIT: Real Estate Investment Trust*

*ADR: American Depositary Receipt*

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $32,983,070) — including $4,432,042 of securities loaned | $ | 39,873,875 |
| Investment in Scudder Daily Assets Fund Institutional (cost $4,544,825)* | | 4,544,825 |
| Investment in Scudder Cash Management QP Trust (cost $1,480,202) | | 1,480,202 |
| Total investments in securities, at value (cost $39,008,097) | | 45,898,902 |
| Cash | | 221,787 |
| Foreign currency at value (cost $84) | | 78 |
| Receivable for investments sold | | 776,447 |
| Dividends receivable | | 14,931 |
| Interest receivable | | 4,514 |
| Foreign taxes recoverable | | 125 |
| Other assets | | 766 |
| Total assets | | 46,917,550 |

### Liabilities

| | | |
|---|---|---|
| Payable for investments purchased | | 898,200 |
| Payable upon return of securities loaned | | 4,544,825 |
| Payable for Portfolio shares redeemed | | 10,164 |
| Accrued mangement fee | | 32,281 |
| Other accrued expenses and payables | | 46,026 |
| Total liabilities | | 5,531,496 |
| **Net assets, at value** | **$** | **41,386,054** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated net investment loss | | (138,129) |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 6,890,805 |
| Foreign currency related transactions | | (4) |
| Accumulated net realized gain (loss) | | (488,542) |
| Paid-in capital | | 35,121,924 |
| **Net assets, at value** | **$** | **41,386,054** |

| | | |
|---|---|---|
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($34,172,858 ÷ 3,655,866 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.35** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($7,213,196 ÷ 779,189 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.26** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $320) | $ | 107,931 |
| Interest | | 84 |
| Interest — Scudder Cash Management QP Trust | | 28,659 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 1,929 |
| Total Income | | 138,603 |
| Expenses: | | |
| Management fee | | 202,401 |
| Custodian and accounting fees | | 51,586 |
| Distribution service fees (Class B) | | 8,972 |
| Record keeping fees (Class B) | | 4,597 |
| Auditing | | 20,815 |
| Legal | | 9,010 |
| Trustees' fees and expenses | | 543 |
| Reports to shareholders | | 6,731 |
| Other | | 1,389 |
| Total expenses, before expense reductions | | 306,044 |
| Expense reductions | | (29,525) |
| Total expenses, after expense reductions | | 276,519 |
| **Net investment income (loss)** | | **(137,916)** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 2,311,675 |
| Foreign currency related transactions | | (3,048) |
| | | 2,308,627 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (1,676,306) |
| Foreign currency related transactions | | (44) |
| | | (1,676,350) |
| **Net gain (loss) on investment transactions** | | **632,277** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **494,361** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (137,916) | $ (298,559) |
| Net realized gain (loss) on investment transactions | 2,308,627 | 4,643,201 |
| Net unrealized appreciation (depreciation) on investment transactions during the period | (1,676,350) | 85,672 |
| Net increase (decrease) in net assets resulting from operations | 494,361 | 4,430,314 |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 1,452,830 | 4,190,288 |
| Cost of shares redeemed | (2,613,644) | (7,454,938) |
| Net increase (decrease) in net assets from Class A share transactions | (1,160,814) | (3,264,650) |
| **Class B** | | |
| Proceeds from shares sold | 716,363 | 3,116,161 |
| Cost of shares redeemed | (857,763) | (1,201,557) |
| Net increase (decrease) in net assets from Class B share transactions | (141,400) | 1,914,604 |
| **Increase (decrease) in net assets** | (807,853) | 3,080,268 |
| Net assets at beginning of period | 42,193,907 | 39,113,639 |
| Net assets at end of period (including accumulated net investment loss of $138,129 and $213, respectively) | **$ 41,386,054** | **$ 42,193,907** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 3,784,410 | 4,185,184 |
| Shares sold | 159,583 | 493,942 |
| Shares redeemed | (288,127) | (894,716) |
| Net increase (decrease) in Portfolio shares | (128,544) | (400,774) |
| Shares outstanding at end of period | **3,655,866** | **3,784,410** |
| **Class B** | | |
| Shares outstanding at beginning of period | 793,650 | 562,802 |
| Shares sold | 79,170 | 370,510 |
| Shares redeemed | (93,631) | (139,662) |
| Net increase (decrease) in Portfolio shares | (14,461) | 230,848 |
| Shares outstanding at end of period | **779,189** | **793,650** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 9.23** | **$ 8.24** | **$ 6.08** | **$ 8.80** | **$ 10.00** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[c] | (.03) | (.06) | (.06) | (.05) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | .15 | 1.05 | 2.22 | (2.67) | (1.18) |
| **Total from investment operations** | .12 | .99 | 2.16 | (2.72) | (1.20) |
| **Net asset value, end of period** | **$ 9.35** | **$ 9.23** | **$ 8.24** | **$ 6.08** | **$ 8.80** |
| Total Return (%) | 1.30[d]** | 12.01[d] | 35.53[d] | (30.91) | (12.00)[d]** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 34 | 35 | 34 | 25 | 23 |
| Ratio of expenses before expense reductions (%) | 1.45* | 1.48 | 1.46 | 1.14 | 1.97* |
| Ratio of expenses after expense reductions (%) | 1.30* | 1.30 | 1.30 | 1.14 | 1.30* |
| Ratio of net investment income (loss) (%) | (.62)* | (.71) | (.85) | (.71) | (.40)* |
| Portfolio turnover rate (%) | 127* | 133 | 115 | 79 | 40* |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period from May 1, 2001 (commencement of operations) to December 31, 2001.*
[c] *Based on average shares outstanding during the period.*
[d] *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 9.15** | **$ 8.21** | **$ 6.07** | **$ 6.51** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.04) | (.09) | (.09) | (.03) |
| Net realized and unrealized gain (loss) on investment transactions | .15 | 1.03 | 2.23 | (.41) |
| **Total from investment operations** | .11 | .94 | 2.14 | (.44) |
| **Net asset value, end of period** | **$ 9.26** | **$ 9.15** | **$ 8.21** | **$ 6.07** |
| Total Return (%) | 1.20[d]** | 11.45[d] | 35.26[d] | (6.76)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 7 | 7 | 5 | .1 |
| Ratio of expenses before expense reductions (%) | 1.82* | 1.88 | 1.85 | 1.40* |
| Ratio of expenses after expense reductions (%) | 1.68* | 1.70 | 1.69 | 1.40* |
| Ratio of net investment income (loss) (%) | (1.00)* | (1.11) | (1.24) | (.82)* |
| Portfolio turnover rate (%) | 127* | 133 | 115 | 79 |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
[c] *Based on average shares outstanding during the period.*
[d] *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

## SVS Janus Growth And Income Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,013.50 | $ 1,011.20 |
| Expenses Paid per $1,000* | $ 4.94 | $ 6.78 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.89 | $ 1,018.05 |
| Expenses Paid per $1,000* | $ 4.96 | $ 6.80 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — SVS Janus Growth And Income Portfolio | .99% | 1.36% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Janus Growth And Income Portfolio

For the six months ended June 30, 2005, the portfolio gained 1.35% (Class A shares, unadjusted for contract charges) versus a –1.72% return for its benchmark, the Russell 1000 Growth Index.

Among exceptional individual performers during the semiannual period, Aetna, Inc., and UnitedHealth Group, Inc., continued to drive home strong results. I believe that we are in a robust health care product and services cycle, within which both Aetna and UnitedHealth are benefiting from their ability to provide a wide range of innovative, consumer-driven services, such as health savings accounts.

Our energy holdings also contributed nicely to performance. I believe that oil and energy prices will remain high this year and next year, due to the tight market. Our oil supply-and-demand model suggests that increased energy demand from worldwide economic growth may eat into OPEC's spare production capacity.

ExxonMobil Corp. has an enormous resource base totaling more than 72 billion barrels of oil, but more important, the company has established the best record of investment discipline among its peers, resulting in the strongest record of returns on invested capital. Likewise, EnCana Corp., the largest producer of natural gas in North America, has a vast land position in Canada, which enables the company to engage in a low-risk development strategy of its resources. Suncor Energy, Inc., is an investment in the potential of Canada's vast oil sands. Although oil sands are expensive to develop, they pose no exploration risk, and these assets should become increasingly attractive in a high-oil-price environment.

Select technology and consumer discretionary holdings negatively affected performance. Advanced Micro Devices, Inc. (AMD) is one of the largest positions in the portfolio at approximately 3.5% of total assets. Following numerous conversations with information technology purchasing managers, industry consultants, sales partners and supply chain partners, I am confident that AMD's Opteron and Athlon 64 microprocessors are gaining acceptance in the marketplace. The stock was weak this period, as earnings fell short of expectations due to continued weakness in the flash memory business. From a valuation perspective, I believe that AMD offers significant upside once the company establishes sustainable profitability in its microprocessor business.

Another laggard during the period was Harman International Industries Inc., which owns a portfolio of well-known audio brands including Harman Kardon, JBL and Infinity. Harman is also the leading provider of infotainment systems for luxury cars. Our holding in Harman was a major contributor to performance last year, but the stock traded lower during the first half of 2005 because of fears that the company is losing its competitive edge in the infotainment segment. Our research suggests that this fear is unwarranted, and I remain enthusiastic about the near-term and long-term prospects for the company.

I believe that this difficult market environment will continue to favor strong stock-picking. I welcome this challenge, as I am supported by a talented and growing analyst pool. My strategy is to stay the course by owning what I believe are the best companies and opportunistically buying those that may have temporarily fallen out of favor.

Minyoung Sohn
Portfolio Manager, Janus Capital Management LLC, Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio is subject to stock market risk, meaning stocks in the portfolio may decline in value for extended periods of time due to the activities and financial prospects of individual companies, or due to general market and economic conditions. The portfolio also invests in individual bonds whose yields and market values fluctuate so that your investment may be worth more or less than its original cost. Bond investments are subject to interest–rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. Please read this portfolio's prospectus for specific details regarding this product's investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Janus Growth And Income Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 96% | 95% |
| Convertible Preferred Stocks | 2% | — |
| Cash Equivalents | 1% | 2% |
| Preferred Stocks | 1% | 3% |
| | 100% | 100% |

| **Sector Diversification** (Excludes Cash Equivalents and Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Information Technology | 24% | 24% |
| Energy | 16% | 9% |
| Consumer Discretionary | 16% | 18% |
| Health Care | 15% | 15% |
| Industrials | 11% | 14% |
| Financials | 9% | 12% |
| Consumer Staples | 9% | 8% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 193. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Janus Growth And Income Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 96.0%** | | |
| **Consumer Discretionary 15.4%** | | |
| **Hotels Restaurants & Leisure 1.1%** | | |
| Four Seasons Hotels Ltd. (e) | 32,680 | **2,160,148** |
| **Household Durables 1.5%** | | |
| Harman International Industries, Inc. | 21,230 | 1,727,273 |
| NVR, Inc.* | 1,785 | 1,445,850 |
| | | **3,173,123** |
| **Leisure Equipment & Products 1.2%** | | |
| Marvel Enterprises, Inc.* (e) | 127,822 | **2,520,650** |
| **Media 7.1%** | | |
| British Sky Broadcasting Group PLC | 444,341 | 4,187,529 |
| Clear Channel Communications, Inc. | 109,170 | 3,376,628 |
| Comcast Corp. Special "A"* | 93,335 | 2,795,383 |
| Lamar Advertising Co.* | 34,735 | 1,485,616 |
| Time Warner, Inc.* | 164,625 | 2,750,884 |
| | | **14,596,040** |
| **Multiline Retail 1.2%** | | |
| Kohl's Corp.* | 43,015 | **2,404,969** |
| **Specialty Retail 3.3%** | | |
| Best Buy Co., Inc. | 58,830 | 4,032,796 |
| PETsMART, Inc. | 89,260 | 2,709,041 |
| | | **6,741,837** |
| **Consumer Staples 8.4%** | | |
| **Beverages 2.2%** | | |
| PepsiCo, Inc. | 84,067 | **4,533,733** |
| **Food Products 1.6%** | | |
| Dean Foods Co.* | 64,950 | 2,288,838 |
| TreeHouse Foods, Inc.* | 31,375 | 894,501 |
| | | **3,183,339** |
| **Household Products 2.3%** | | |
| Procter & Gamble Co. | 90,710 | **4,784,953** |
| **Personal Products 1.2%** | | |
| Avon Products, Inc. | 62,805 | **2,377,169** |
| **Tobacco 1.1%** | | |
| Altria Group, Inc. | 35,300 | **2,282,498** |
| **Energy 15.5%** | | |
| **Oil, Gas & Consumable Fuels** | | |
| Amerada Hess Corp. | 25,365 | 2,701,626 |
| Apache Corp. | 22,820 | 1,474,172 |
| EnCana Corp. | 132,488 | 5,245,200 |
| EOG Resources, Inc. | 24,575 | 1,395,860 |
| ExxonMobil Corp. | 157,250 | 9,037,157 |
| Kinder Morgan, Inc. | 27,420 | 2,281,344 |
| Petro-Canada | 41,372 | 2,692,962 |
| Suncor Energy, Inc. | 147,077 | 6,952,906 |
| | | **31,781,227** |

| | Shares | Value ($) |
|---|---|---|
| **Financials 8.7%** | | |
| **Banks 2.0%** | | |
| Fifth Third Bancorp (e) | 26,290 | 1,083,411 |
| US Bancorp. | 103,887 | 3,033,500 |
| | | **4,116,911** |
| **Diversified Financial Services 6.7%** | | |
| Citigroup, Inc. | 159,708 | 7,383,301 |
| Countrywide Financial Corp. | 60,594 | 2,339,534 |
| JPMorgan Chase & Co. | 112,325 | 3,967,319 |
| | | **13,690,154** |
| **Health Care 14.6%** | | |
| **Biotechnology 0.7%** | | |
| Neurocrine Biosciences, Inc.* (e) | 32,180 | **1,353,491** |
| **Health Care Equipment & Supplies 0.4%** | | |
| Align Technology, Inc.* (e) | 120,340 | **886,906** |
| **Health Care Providers & Services 8.5%** | | |
| Aetna, Inc. | 57,570 | 4,767,947 |
| Caremark Rx, Inc.* | 108,365 | 4,824,410 |
| UnitedHealth Group, Inc. | 149,090 | 7,773,553 |
| | | **17,365,910** |
| **Pharmaceuticals 5.0%** | | |
| Eli Lilly & Co. | 34,890 | 1,943,722 |
| Roche Holding AG | 40,806 | 5,146,022 |
| Sanofi-Aventis | 40,103 | 3,283,176 |
| | | **10,372,920** |
| **Industrials 10.1%** | | |
| **Aerospace & Defense 1.0%** | | |
| Honeywell International, Inc. | 55,540 | **2,034,430** |
| **Electrical Equipment 1.7%** | | |
| Rockwell Automation, Inc. | 71,145 | **3,465,473** |
| **Industrial Conglomerates 6.4%** | | |
| General Electric Co. | 79,975 | 2,771,134 |
| Smiths Group PLC | 127,661 | 2,099,412 |
| Tyco International Ltd. | 283,555 | 8,279,806 |
| | | **13,150,352** |
| **Road & Rail 1.0%** | | |
| Canadian National Railway Co. | 33,677 | **1,941,479** |
| **Information Technology 23.3%** | | |
| **Communications Equipment 2.6%** | | |
| Cisco Systems, Inc.* | 207,215 | 3,959,879 |
| Nokia Oyj (ADR) | 86,150 | 1,433,536 |
| | | **5,393,415** |
| **Computers & Peripherals 2.8%** | | |
| Dell, Inc.* | 48,430 | 1,913,469 |
| EMC Corp.* | 70,710 | 969,434 |
| Hewlett-Packard Co. | 122,180 | 2,872,452 |
| | | **5,755,355** |
| **Electronic Equipment & Instruments 2.9%** | | |
| Samsung Electronics Co., Ltd. (GDR), 144A | 25,065 | **5,996,801** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Internet Software & Services 2.3%** | | |
| Yahoo!, Inc.* | 132,345 | **4,585,754** |
| **Semiconductors & Semiconductor Equipment 8.4%** | | |
| Advanced Micro Devices, Inc.* (e) | 421,735 | 7,312,885 |
| Linear Technology Corp. | 75,475 | 2,769,178 |
| Maxim Integrated Products, Inc. | 77,665 | 2,967,580 |
| Texas Instruments, Inc. | 150,600 | 4,227,342 |
| | | **17,276,985** |
| **Software 4.3%** | | |
| Activision, Inc.* | 35,035 | 578,778 |
| Electronic Arts, Inc.* | 70,480 | 3,989,873 |
| Microsoft Corp. | 172,100 | 4,274,964 |
| | | **8,843,615** |
| **Total Common Stocks** (Cost $157,382,299) | | **196,769,637** |

## Preferred Stocks 0.9%

| | Shares | Value ($) |
|---|---|---|
| Porsche AG (Cost $697,147) | 2,476 | **1,856,146** |

## Convertible Preferred Stocks 1.9%

| | Shares | Value ($) |
|---|---|---|
| Amerada Hess Corp. 7.0% | 20,700 | 1,896,741 |
| Morgan Stanley 14.3%, 144A | 40,655 | 1,006,618 |
| XL Capital Ltd. 6.50% | 43,500 | 1,041,825 |
| **Total Convertible Preferred Stocks** (Cost $3,217,215) | | **3,945,184** |

## Securities Lending Collateral 6.9%

| | Shares | Value ($) |
|---|---|---|
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $14,154,764) | 14,154,764 | **14,154,764** |

## Cash Equivalents 1.1%

| | Shares | Value ($) |
|---|---|---|
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $2,258,412) | 2,258,412 | **2,258,412** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $177,709,837) (a) | 106.8 | **218,984,143** |
| **Other Assets and Liabilities, Net** | (6.8) | **(13,988,284)** |
| **Net Assets** | 100.0 | **204,995,859** |

## Notes to SVS Janus Growth And Income Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $178,853,454. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $40,130,689. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $44,597,828 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,467,139.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $13,762,100, which is 6.7% of net assets.*

*ADR: American Depositary Receipt*

*GDR: Global Depositary Receipt*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $161,296,661) — including $13,762,100 of securities loaned | $ | 202,570,967 |
| Investment in Scudder Daily Assets Fund Institutional (cost $14,154,764)* | | 14,154,764 |
| Investment in Scudder Cash Management QP Trust (cost $2,258,412) | | 2,258,412 |
| Total investments in securities, at value (cost $177,709,837) | | 218,984,143 |
| Cash | | 25,669 |
| Foreign currency, at value (cost $359,497) | | 344,277 |
| Receivable for investments sold | | 255,532 |
| Dividends receivable | | 211,542 |
| Interest receivable | | 9,540 |
| Receivable for Portfolio shares sold | | 9,597 |
| Foreign taxes recoverable | | 13,484 |
| Unrealized appreciation on forward currency exchange contracts | | 215,306 |
| Other assets | | 5,021 |
| Total assets | | 220,074,111 |

### Liabilities

| | | |
|---|---|---|
| Unrealized depreciation on forward foreign currency exchange contracts | | 740 |
| Payable for investments purchased | | 551,829 |
| Payable for Portfolio shares redeemed | | 184,425 |
| Payable upon return of securities loaned | | 14,154,764 |
| Accrued management fee | | 120,515 |
| Other accrued expenses and payables | | 65,979 |
| Total liabilities | | 15,078,252 |
| **Net assets, at value** | **$** | **204,995,859** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 603,027 |
| Net unrealized appreciation (depreciation) on: | | |
| Investments | | 41,274,306 |
| Foreign currency related transactions | | 198,442 |
| Accumulated net realized gain (loss) | | (47,375,800) |
| Paid-in capital | | 210,295,884 |
| **Net assets, at value** | **$** | **204,995,859** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($177,421,445 ÷ 17,764,230 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.99** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($27,574,414 ÷ 2,776,161 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.93** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $51,693) | $ | 1,390,925 |
| Interest | | 1,591 |
| Interest — Scudder Cash Management QP Trust | | 45,129 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 19,324 |
| Total Income | | 1,456,969 |
| Expenses: | | |
| Management fee | | 897,716 |
| Custodian and accounting fees | | 45,750 |
| Distribution service fees (Class B) | | 33,296 |
| Record keeping fees (Class B) | | 16,950 |
| Auditing | | 20,996 |
| Legal | | 13,252 |
| Trustees' fees and expenses | | 2,183 |
| Reports to shareholders | | 16,346 |
| Other | | 7,050 |
| Total expenses, before expense reductions | | 1,053,539 |
| Expense reductions | | (965) |
| Total expenses, after expense reductions | | 1,052,574 |
| **Net investment income (loss)** | | **404,395** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 3,798,694 |
| Foreign currency related transactions | | (122,339) |
| | | 3,676,355 |
| Net unrealized appreciation (depreciation) during the period on: | | |
| Investments | | (2,048,663) |
| Foreign currency related transactions | | 494,096 |
| | | (1,554,567) |
| **Net gain (loss) on investment transactions** | | **2,121,788** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **2,526,183** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 404,395 | $ 601,236 |
| Net realized gain (loss) on investment transactions | 3,676,355 | 8,796,510 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (1,554,567) | 12,728,179 |
| Net increase (decrease) in net assets resulting from operations | 2,526,183 | 22,125,925 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (419,512) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 2,176,684 | 6,502,623 |
| Reinvestment of distributions | 419,512 | — |
| Cost of shares redeemed | (13,528,006) | (28,062,645) |
| Net increase (decrease) in net assets from Class A share transactions | (10,931,810) | (21,560,022) |
| **Class B** | | |
| Proceeds from shares sold | 1,759,680 | 11,312,331 |
| Cost of shares redeemed | (1,610,021) | (1,739,333) |
| Net increase (decrease) in net assets from Class B share transactions | 149,659 | 9,572,998 |
| **Increase (decrease) in net assets** | (8,675,480) | 10,138,901 |
| Net assets at beginning of period | 213,671,339 | 203,532,438 |
| Net assets at end of period (including undistributed net investment income of $603,027 and $618,144, respectively) | **$ 204,995,859** | **$ 213,671,339** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 18,888,001 | 21,296,089 |
| Shares sold | 224,230 | 722,385 |
| Shares issued to shareholders in reinvestment of distributions | 43,249 | — |
| Shares redeemed | (1,391,250) | (3,130,473) |
| Net increase (decrease) in Portfolio shares | (1,123,771) | (2,408,088) |
| Shares outstanding at end of period | **17,764,230** | **18,888,001** |
| **Class B** | | |
| Shares outstanding at beginning of period | 2,758,937 | 1,676,008 |
| Shares sold | 182,064 | 1,276,437 |
| Shares redeemed | (164,840) | (193,508) |
| Net increase (decrease) in Portfolio shares | 17,224 | 1,082,929 |
| Shares outstanding at end of period | **2,776,161** | **2,758,937** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002*** | 2001[b] | 2000[c] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | **(Restated)** | | |
| **Net asset value, beginning of period** | **$ 9.88** | **$ 8.86** | **$ 7.18** | **$ 9.05** | **$ 10.40** | **$ 11.49** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[d] | .02 | .03 | .03 | .04 | .08 | .12 |
| Net realized and unrealized gain (loss) on investment transactions | .11 | .99 | 1.71 | (1.86) | (1.36) | (1.16) |
| **Total from investment operations** | .13 | 1.02 | 1.74 | (1.82) | (1.28) | (1.04) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.02) | — | (.06) | (.05) | (.07) | — |
| Net realized gains on investment transactions | — | — | — | — | — | (.05) |
| **Total distributions** | (.02) | — | (.06) | (.05) | (.07) | (.05) |
| **Net asset value, end of period** | **$ 9.99** | **$ 9.88** | **$ 8.86** | **$ 7.18** | **$ 9.05** | **$ 10.40** |
| Total Return (%) | 1.35** | 11.51 | 24.37 | (20.22) | (12.28) | (9.18)[e] |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 177 | 187 | 189 | 167 | 179 | 104 |
| Ratio of expenses before expense reductions (%) | .99* | 1.06 | 1.07 | 1.04 | 1.05 | 1.10 |
| Ratio of expenses after expense reductions (%) | .99* | 1.06 | 1.07 | 1.04 | 1.05 | 1.01 |
| Ratio of net investment income (loss) (%) | .44* | .34 | .40 | .54 | .90 | 1.07 |
| Portfolio turnover rate (%) | 30* | 52 | 46 | 57 | 48 | 39 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *As required, effective January 1, 2001, the Portfolio has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on debt securities. The effect of this change for the year ended December 31, 2001 was to decrease net investment income by $.01, increase net realized and unrealized gains and losses by $.01 and decrease the ratio of net investment income to average net assets from .92% to .90%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

c *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Per share information, for the period prior to December 31, 2001, has been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

d *Based on average shares outstanding during the period.*

e *Total return would have been lower had certain expenses not been reduced.*

* *Annualized* ** *Not annualized*

*** *Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by $0.03. The total return was also adjusted from –20.56% to –20.22% in accordance with this change.*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b]*** |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | **(Restated)** |
| **Net asset value, beginning of period** | **$ 9.82** | **$ 8.84** | **$ 7.17** | **$ 7.96** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | .00[d] | (.01) | .00[d] | .02 |
| Net realized and unrealized gain (loss) on investment transactions | .11 | .99 | 1.71 | (.81) |
| **Total from investment operations** | .11 | .98 | 1.71 | (.79) |
| *Less distributions from:* | | | | |
| Net investment income | — | — | (.04) | — |
| **Net asset value, end of period** | **$ 9.93** | **$ 9.82** | **$ 8.84** | **$ 7.17** |
| Total Return (%) | 1.12** | 11.09 | 23.94 | (9.92)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 28 | 27 | 15 | .4 |
| Ratio of expenses (%) | 1.36* | 1.44 | 1.47 | 1.29* |
| Ratio of net investment income (loss) (%) | .07* | (.04) | (.01) | .48* |
| Portfolio turnover rate (%) | 30* | 52 | 46 | 57 |

a *For the six months ended June 30, 2005 (Unaudited).*

b *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

c *Based on average shares outstanding during the period.*

d *Amount is less than $.005 per share.*

* *Annualized* ** *Not annualized*

*** *Subsequent to December 31, 2002, these numbers have been restated to reflect an adjustment to the value of a security as of December 31, 2002. The effect of this adjustment for the year ended December 31, 2002 was to increase the net asset value per share by $0.03. The total return was also adjusted from –10.30% to –9.92% in accordance with this change.*

## SVS Janus Growth Opportunities Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| **Actual Portfolio Return** | **Class A** | **Class B** |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 994.30 | $ 990.90 |
| Expenses Paid per $1,000* | $ 4.90 | $ 6.76 |
| **Hypothetical 5% Portfolio Return** | **Class A** | **Class B** |
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.89 | $ 1,018.00 |
| Expenses Paid per $1,000* | $ 4.96 | $ 6.85 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| **Annualized Expense Ratios** | **Class A** | **Class B** |
|---|---|---|
| Scudder Variable Series II — SVS Janus Growth Opportunities Portfolio | .99% | 1.37% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Janus Growth Opportunities Portfolio

For the six months ended June 30, 2005, SVS Janus Growth Opportunities Portfolio returned –0.57% (Class A shares, unadjusted for contract charges), while its benchmark, the Russell 1000 Growth Index, returned –1.72%.

The portfolio's outperformance in the period can be attributed to favorable stock selection within the information technology (IT) and health care sectors. Strong pockets of growth within the IT sector benefited a number of holdings in this area. Meanwhile, the solid gains posted by the health care portion of the portfolio resulted primarily from select biotech and HMO holdings. HMOs have benefited from cost cutting, increased enrollment and improving margins. Weak spots in the portfolio included industrials, where a number of individual picks fell short of portfolio management's expectations.

From a broader perspective, the well-publicized rise in the price of oil has yet to significantly crimp economic growth. We're keeping a close eye on energy prices, as well as developments in interest rates, the value of the dollar and the domestic housing industry.

Still anticipating somewhat of a slowdown in the next couple of quarters, we've widened our focus to include companies that don't necessarily rely on a robust economy for growth. Combined with our insistence on finding opportunities that have been discounted by the market, we'll continue to strive for benchmark-beating returns.

Marc Pinto

Portfolio Manager, Janus Capital Management LLC, Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

This portfolio is subject to stock market risk. The portfolio may at times have significant exposure to certain industry groups, which may react similarly to market developments (resulting in greater price volatility). The portfolio also may have significant exposure to foreign markets (which include risks such as currency fluctuation and political uncertainty). Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged index composed of common stocks of larger US companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Janus Growth Opportunities Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | **6/30/05** | **12/31/04** |
|---|---|---|
| Common Stocks | 97% | 96% |
| Cash Equivalents | 3% | 4% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | **6/30/05** | **12/31/04** |
|---|---|---|
| Information Technology | 27% | 25% |
| Consumer Discretionary | 22% | 20% |
| Health Care | 21% | 21% |
| Industrials | 11% | 13% |
| Financials | 6% | 10% |
| Energy | 5% | 5% |
| Consumer Staples | 5% | 4% |
| Materials | 2% | 2% |
| Telecommunication Services | 1% | — |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 201. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Janus Growth Opportunities Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 96.6%** | | |
| **Consumer Discretionary 21.7%** | | |
| **Automobiles 1.3%** | | |
| Harley-Davidson, Inc. | 39,415 | **1,954,984** |
| **Diversified Consumer Services 2.1%** | | |
| Apollo Group, Inc. "A"* | 39,215 | **3,067,397** |
| **Hotels Restaurants & Leisure 5.0%** | | |
| Hilton Hotels Corp. | 64,820 | 1,545,957 |
| McDonald's Corp. | 18,640 | 517,260 |
| Royal Caribbean Cruises Ltd. | 61,350 | 2,966,886 |
| Starbucks Corp.* | 44,555 | 2,301,711 |
| | | **7,331,814** |
| **Internet & Catalog Retail 1.4%** | | |
| IAC/InterActiveCorp.* (e) | 85,480 | **2,055,794** |
| **Media 1.8%** | | |
| Time Warner, Inc.* | 163,150 | **2,726,237** |
| **Specialty Retail 7.8%** | | |
| Best Buy Co., Inc. | 47,010 | 3,222,536 |
| Home Depot, Inc. | 143,615 | 5,586,623 |
| Staples, Inc. | 123,395 | 2,630,781 |
| | | **11,439,940** |
| **Textiles, Apparel & Luxury Goods 2.3%** | | |
| NIKE, Inc. "B" | 39,755 | **3,442,783** |
| **Consumer Staples 4.5%** | | |
| **Beverages 1.8%** | | |
| PepsiCo, Inc. | 49,250 | **2,656,053** |
| **Household Products 2.7%** | | |
| Procter & Gamble Co. | 74,960 | **3,954,140** |
| **Energy 4.9%** | | |
| **Energy Equipment & Services 1.5%** | | |
| Halliburton Co. | 46,965 | **2,245,867** |
| **Oil, Gas & Consumable Fuels 3.4%** | | |
| ExxonMobil Corp. | 55,445 | 3,186,424 |
| Occidental Petroleum Corp. | 23,470 | 1,805,547 |
| | | **4,991,971** |
| **Financials 5.6%** | | |
| **Capital Markets 1.2%** | | |
| Morgan Stanley | 34,425 | **1,806,280** |
| **Consumer Finance 3.1%** | | |
| American Express Co. | 85,005 | **4,524,816** |
| **Diversified Financial Services 1.3%** | | |
| Countrywide Financial Corp. | 51,160 | **1,975,288** |
| **Health Care 20.4%** | | |
| **Biotechnology 3.6%** | | |
| Amgen, Inc.* | 35,245 | 2,130,912 |
| Genentech, Inc.* | 39,475 | 3,169,053 |
| | | **5,299,965** |
| **Health Care Equipment & Supplies 5.8%** | | |
| Biomet, Inc. | 61,450 | 2,128,628 |
| Medtronic, Inc. | 102,340 | 5,300,189 |
| Varian Medical Systems, Inc.* | 32,155 | 1,200,346 |
| | | **8,629,163** |
| **Health Care Providers & Services 7.2%** | | |
| Caremark Rx, Inc.* | 61,140 | 2,721,953 |
| UnitedHealth Group, Inc. | 150,330 | 7,838,206 |
| | | **10,560,159** |
| **Pharmaceuticals 3.8%** | | |
| Eli Lilly & Co. | 31,855 | 1,774,642 |
| Sanofi-Aventis (ADR) | 94,720 | 3,882,573 |
| | | **5,657,215** |
| **Industrials 10.2%** | | |
| **Aerospace & Defense 1.1%** | | |
| Raytheon Co. | 41,840 | **1,636,781** |
| **Air Freight & Logistics 3.5%** | | |
| FedEx Corp. | 62,740 | **5,082,567** |
| **Industrial Conglomerates 5.6%** | | |
| General Electric Co. | 154,445 | 5,351,519 |
| Tyco International Ltd. | 100,045 | 2,921,314 |
| | | **8,272,833** |
| **Information Technology 26.3%** | | |
| **Communications Equipment 5.3%** | | |
| Cisco Systems, Inc.* | 140,145 | 2,678,171 |
| Motorola, Inc. | 285,590 | 5,214,873 |
| | | **7,893,044** |
| **Computers & Peripherals 5.4%** | | |
| Dell, Inc.* | 35,450 | 1,400,629 |
| Lexmark International, Inc. "A"* | 46,190 | 2,994,498 |
| Research In Motion Ltd.* | 48,205 | 3,555,119 |
| | | **7,950,246** |
| **Electronic Equipment & Instruments 1.3%** | | |
| Samsung Electronics Co., Ltd. (GDR), 144A | 8,255 | **1,975,009** |
| **Internet Software & Services 3.6%** | | |
| Yahoo!, Inc.* | 151,200 | **5,239,080** |
| **Semiconductors & Semiconductor Equipment 6.2%** | | |
| Intel Corp. | 105,450 | 2,748,027 |
| Texas Instruments, Inc. | 226,230 | 6,350,276 |
| | | **9,098,303** |
| **Software 4.5%** | | |
| Microsoft Corp. | 223,160 | 5,543,294 |
| SAP AG (ADR) | 23,225 | 1,005,643 |
| | | **6,548,937** |
| **Materials 1.7%** | | |
| **Metals & Mining** | | |
| Rio Tinto PLC (ADR) | 21,085 | **2,570,683** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Telecommunication Services 1.3%** | | |
| **Wireless Telecommunication Services** | | |
| China Mobile (Hong Kong) Ltd. (ADR) | 102,815 | **1,911,331** |
| **Total Common Stocks** (Cost $121,986,391) | | **142,498,680** |

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 1.1%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $1,707,750) | 1,707,750 | **1,707,750** |

| | Shares | Value ($) |
|---|---|---|
| **Cash Equivalents 3.4%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $5,016,657) | 5,016,656 | **5,016,657** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $128,710,798) (a) | 101.1 | **149,223,087** |
| **Other Assets and Liabilities, Net** | (1.1) | **(1,684,428)** |
| **Net Assets** | 100.0 | **147,538,659** |

## Notes to SVS Janus Growth Opportunities Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $129,582,766. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $19,640,321. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,952,911 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,312,590.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *A portion of this security was on loan. The value of the security loaned at June 30, 2005 amounted to $1,667,730, which is 1.1% of net assets.*

*ADR: American Depositary Receipt*

*GDR: Global Depositary Receipt*

*144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $121,986,391) — including $1,667,730 of securities loaned | $ | 142,498,680 |
| Investment in Scudder Daily Assets Fund Institutional (cost$1,707,750)* | | 1,707,750 |
| Investment in Scudder Cash Management QP Trust (cost $5,016,657) | | 5,016,657 |
| Total investments in securities, at value (cost $128,710,798) | | 149,223,087 |
| Dividends receivable | | 185,177 |
| Interest receivable | | 18,115 |
| Foreign taxes recoverable | | 51 |
| Other assets | | 2,075 |
| Total assets | | 149,428,505 |

### Liabilities

| | | |
|---|---|---|
| Payable for Portfolio shares redeemed | | 33,945 |
| Payable upon return of securities loaned | | 1,707,750 |
| Accrued management fee | | 88,353 |
| Other accrued expenses and payables | | 59,798 |
| Total liabilities | | 1,889,846 |
| **Net assets, at value** | **$** | **147,538,659** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Undistributed net investment income | | 1,751 |
| Net unrealized appreciation (depreciation) on investments | | 20,512,289 |
| Accumulated net realized gain (loss) | | (89,789,687) |
| Paid-in capital | | 216,814,306 |
| **Net assets, at value** | **$** | **147,538,659** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($139,057,558 ÷ 18,023,549 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **7.72** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($8,481,101 ÷ 1,108,269 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **7.65** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $18,156) | $ | 684,027 |
| Interest — Scudder Cash Management QP Trust | | 86,470 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 3,082 |
| Total Income | | 773,579 |
| Expenses: | | |
| Management fee | | 627,039 |
| Custodian and accounting fees | | 35,811 |
| Distribution service fees (Class B) | | 10,018 |
| Record keeping fees (Class B) | | 5,191 |
| Auditing | | 21,367 |
| Legal | | 9,276 |
| Trustees' fees and expenses | | 1,550 |
| Reports to shareholder | | 8,202 |
| Total expenses, before expense reductions | | 718,454 |
| Expense reductions | | (751) |
| Total expenses, after expense reduction | | 717,703 |
| **Net investment income (loss)** | | **55,876** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from: | | |
| Investments | | 4,483,655 |
| Foreign currency related transactions | | 4 |
| | | 4,483,659 |
| Net unrealized appreciation (depreciation) during the period on investments | | (5,325,119) |
| **Net gain (loss) on investment transactions** | | **(841,460)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(785,584)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ 55,876 | $ 390,838 |
| Net realized gain (loss) on investment transactions | 4,483,659 | 2,198,797 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (5,325,119) | 13,452,735 |
| Net increase (decrease) in net assets resulting from operations | (785,584) | 16,042,370 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (444,341) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 18,554,272 | 2,971,778 |
| Reinvestment of distributions | 444,341 | — |
| Cost of shares redeemed | (10,687,233) | (18,214,445) |
| Net increase (decrease) in net assets from Class A share transactions | 8,311,380 | (15,242,667) |
| **Class B** | | |
| Proceeds from shares sold | 773,458 | 2,248,669 |
| Cost of shares redeemed | (570,392) | (382,089) |
| Net increase (decrease) in net assets from Class B share transactions | 203,066 | 1,866,580 |
| **Increase (decrease) in net assets** | 7,284,521 | 2,666,283 |
| Net assets at beginning of period | 140,254,138 | 137,587,855 |
| Net assets at end of period (including undistributed net investment income and accumulated net investment loss of $1,751 and $390,216, respectively) | **$ 147,538,659** | **$ 140,254,138** |

### Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 16,930,734 | 19,085,611 |
| Shares sold | 2,439,841 | 413,736 |
| Shares issued to shareholders in reinvestment of distributions | 59,088 | — |
| Shares redeemed | (1,406,114) | (2,568,613) |
| Net increase (decrease) in Portfolio shares | 1,092,815 | (2,154,877) |
| Shares outstanding at end of period | **18,023,549** | **16,930,734** |
| **Class B** | | |
| Shares outstanding at beginning of period | 1,081,562 | 812,791 |
| Shares sold | 101,929 | 322,383 |
| Shares redeemed | (75,222) | (53,612) |
| Net increase (decrease) in Portfolio shares | 26,707 | 268,771 |
| Shares outstanding at end of period | **1,108,269** | **1,081,562** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001 | 2000[b] |
|---|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | | |
| **Net asset value, beginning of period** | **$ 7.79** | **$ 6.92** | **$ 5.45** | **$ 7.86** | **$ 10.31** | **$ 11.64** |
| *Income (loss) from investment operations:* | | | | | | |
| Net investment income (loss)[c] | — | .02 | (.01) | (.01) | (.03) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | (.04) | .85 | 1.48 | (2.40) | (2.42) | (1.31) |
| **Total from investment operations** | (.04) | .87 | 1.47 | (2.41) | (2.45) | (1.33) |
| *Less distributions from:* | | | | | | |
| Net investment income | (.03) | — | — | — | — | — |
| **Net asset value, end of period** | **$ 7.72** | **$ 7.79** | **$ 6.92** | **$ 5.45** | **$ 7.86** | **$ 10.31** |
| Total Return (%) | (.57)** | 12.57 | 26.97 | (30.53) | (23.76) | (11.42)[d] |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | | |
| Net assets, end of period ($ millions) | 139 | 132 | 132 | 118 | 164 | 139 |
| Ratio of expenses before expense reductions (%) | .99* | 1.06 | 1.07 | 1.01 | 1.11 | 1.06 |
| Ratio of expenses after expense reductions (%) | .99* | 1.06 | 1.07 | 1.01 | 1.10 | 1.01 |
| Ratio of net investment income (loss) (%) | .10* | .31 | (.17) | (.10) | (.31) | (.20) |
| Portfolio turnover rate (%) | 35* | 58 | 50 | 48 | 34 | 14 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *On June 18, 2001, the Portfolio implemented a 1 for 10 reverse stock split. Share and per share information, for the period prior to December 31, 2001, have been restated to reflect the effect of the split. Shareholders received 1 share for every 10 shares owned and net asset value per share increased correspondingly.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 7.72** | **$ 6.88** | **$ 5.44** | **$ 5.87** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.01) | (.01) | (.04) | (.01) |
| Net realized and unrealized gain (loss) on investment transactions | (.06) | .85 | 1.48 | (.42) |
| **Total from investment operations** | (.07) | .84 | 1.44 | (.43) |
| **Net asset value, end of period** | **$ 7.65** | **$ 7.72** | **$ 6.88** | **$ 5.44** |
| Total Return (%) | (.91)** | 12.21 | 26.47 | (7.33)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 8 | 8 | 6 | .2 |
| Ratio of expenses (%) | 1.37* | 1.45 | 1.46 | 1.29* |
| Ratio of net investment income (loss) (%) | (.28)* | (.08) | (.56) | (.49)* |
| Portfolio turnover rate (%) | 35* | 58 | 50 | 48 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## SVS Oak Strategic Equity Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 908.10 | $ 905.70 |
| Expenses Paid per $1,000* | $ 5.39 | $ 7.13 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.14 | $ 1,017.31 |
| Expenses Paid per $1,000* | $ 5.71 | $ 7.55 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — SVS Oak Strategic Equity Portfolio | 1.14% | 1.51% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Oak Strategic Equity Portfolio

For the six-month period ended June 30, 2005, the portfolio returned -9.19% (Class A shares, unadjusted for contract charges), as compared to its benchmark, the Russell 1000 Growth Index, which declined 1.72% for the six-month period ended June 30, 2005. The year-to-date underperformance can be attributed in large part to an overweight in the technology sector and an underweight in energy-related stocks. Energy continued to perform well during the first half of the year, as oil reached highs of $61 a barrel. Oak Associates does not manage the portfolio in relationship to a benchmark and, therefore, did not automatically have exposure to energy. Oak has continued to avoid the sector, maintaining the belief that its performance is tied to the short-term inflation of commodities — which is inconsistent with our three- to five-year investment time horizon.

While on-line retailer eBay, Inc. was a significant contributor to performance in 2004, the company detracted from performance in the first half of 2005. Although eBay issued solid guidance early in the year, investors were expecting more. The less-than-anticipated earnings was a result of the company's plan to significantly increase capital spending on its infrastructure buildup, particularly in China and its PayPal division. Another detractor included Symbol Technologies, Inc. Symbol had a disappointing second quarter, during which the company lowered revenue guidance on two separate occasions, related to weakness in Europe and the retail end market. The Radio Frequency Identification (RFID) market continues to be a bright spot for Symbol, and its cash flow is strong. We continue to hold both companies in the portfolio, in light of our expectations for their long-term growth potential.

Stock selection within the health care, financials and the technology sectors contributed positively to performance. Affymetrix, Inc. and Medtronic, Inc. were health care standouts in the portfolio for the first half. Gene chip maker, Affymetrix continued to dominate the personalized medicine market and announced plans to acquire ParAllele BioScience, Inc. during the year. Medtronic helped performance as well, showing strength in its defibrillators, spinal products and the diabetes care market segments over the period, and we continue to hold the company for its high-quality medical technology franchise that focuses on reaching unmet medical needs. IT-services provider Cognizant Technology Solutions Corp. had another strong quarter during the reporting period and continues to benefit from the trend toward outsourcing.

James D. Oelschlager

Portfolio Manager
Oak Associates, Ltd., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

The portfolio may concentrate investments in specific sectors, which creates special risk considerations. Derivatives may be more volatile and less liquid than traditional securities, and the portfolio could suffer losses on its derivative positions. While the portfolio does not concentrate in any industry, to the extent that the portfolio has exposure to a given industry or sector, any factors affecting that industry or sector could affect the value of portfolio securities. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index which consists of those securities in the Russell 1000 Index with higher price–to–book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Oak Strategic Equity Portfolio

| Asset Allocation (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 99% |
| Cash Equivalents | 1% | 1% |
| | 100% | 100% |

| Sector Diversification (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Information Technology | 52% | 56% |
| Health Care | 17% | 15% |
| Financials | 15% | 14% |
| Industrials | 10% | 6% |
| Consumer Discretionary | 6% | 9% |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 209. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Oak Strategic Equity Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 99.0%** | | |
| **Consumer Discretionary 6.0%** | | |
| **Household Durables 1.6%** | | |
| Harman International Industries, Inc. | 15,200 | **1,236,672** |
| **Internet & Catalog Retail 4.4%** | | |
| eBay, Inc.* | 103,700 | **3,423,137** |
| **Financials 15.2%** | | |
| **Capital Markets 6.6%** | | |
| Charles Schwab Corp. | 451,400 | **5,091,792** |
| **Consumer Finance 4.5%** | | |
| MBNA Corp. | 133,400 | **3,489,744** |
| **Diversified Financial Services 4.1%** | | |
| Citigroup, Inc. | 67,500 | **3,120,525** |
| **Health Care 16.6%** | | |
| **Biotechnology 8.9%** | | |
| Affymetrix, Inc.* (e) | 57,000 | 3,074,010 |
| Amgen, Inc.* | 63,000 | 3,808,980 |
| | | **6,882,990** |
| **Health Care Equipment & Supplies 4.2%** | | |
| Medtronic, Inc. | 63,000 | **3,262,770** |
| **Pharmaceuticals 3.5%** | | |
| Pfizer, Inc. | 96,200 | **2,653,196** |
| **Industrials 9.6%** | | |
| **Air Freight & Logistics 3.7%** | | |
| United Parcel Service, Inc. "B" | 41,400 | **2,863,224** |
| **Electrical Equipment 2.2%** | | |
| Rockwell Automation, Inc. | 34,000 | **1,656,140** |
| **Machinery 3.7%** | | |
| Caterpillar, Inc. | 29,900 | **2,849,769** |
| **Information Technology 51.6%** | | |
| **Communications Equipment 12.1%** | | |
| Cisco Systems, Inc.* | 174,600 | 3,336,606 |
| Juniper Networks, Inc.* | 134,900 | 3,396,782 |
| QUALCOMM, Inc. | 80,000 | 2,640,800 |
| | | **9,374,188** |
| **Computers & Peripherals 12.9%** | | |
| Avid Technology, Inc.* (e) | 33,000 | 1,758,240 |
| Dell, Inc.* | 105,900 | 4,184,109 |
| EMC Corp.* | 292,600 | 4,011,546 |
| | | **9,953,895** |
| **Electronic Equipment & Instruments 1.5%** | | |
| Symbol Technologies, Inc. | 114,300 | **1,128,141** |
| **IT Consulting & Services 4.1%** | | |
| Cognizant Technology Solutions Corp. "A"* | 67,500 | **3,181,275** |
| **Semiconductors & Semiconductor Equipment 12.4%** | | |
| Applied Materials, Inc. | 193,400 | 3,129,212 |
| Linear Technology Corp. | 93,100 | 3,415,839 |
| Maxim Integrated Products, Inc. | 79,050 | 3,020,501 |
| | | **9,565,552** |
| **Software 8.6%** | | |
| Electronic Arts, Inc.* | 70,000 | 3,962,700 |
| Symantec Corp.* | 122,000 | 2,652,280 |
| | | **6,614,980** |
| **Total Common Stocks** (Cost $72,046,394) | | **76,347,990** |
| **Securities Lending Collateral 5.3%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $4,067,505) | 4,067,505 | **4,067,505** |
| **Cash Equivalents 1.1%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $834,710) | 834,710 | **834,710** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $76,948,609) (a) | 105.4 | **81,250,205** |
| **Other Assets and Liabilities, Net** | (5.4) | **(4,126,946)** |
| **Net Assets** | 100.0 | **77,123,259** |

**Notes to SVS Oak Strategic Equity Portfolio of Investments**

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $76,943,009. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $4,307,196. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $9,299,622 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,992,426.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $3,955,306, which is 5.1% of net assets.*

*The accompanying notes are an integral part of the financial statements.*

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Investments in securities, at value (cost $72,046,394) — including $3,955,306 of securities loaned | $ | 76,347,990 |
| Investment in Scudder Daily Assets Fund Institutional (cost $4,067,505)* | | 4,067,505 |
| Investment in Scudder Cash Management QP Trust (cost $834,710) | | 834,710 |
| Total investments in securities, at value (cost $76,948,609) | | 81,250,205 |
| Dividends receivable | | 24,824 |
| Interest receivable | | 1,929 |
| Receivable for Portfolio shares sold | | 78,236 |
| Other assets | | 1,526 |
| Total assets | | 81,356,720 |
| **Liabilities** | | |
| Payable for Portfolio shares redeemed | | 50,988 |
| Payable upon return of securities loaned | | 4,067,505 |
| Accrued management fee | | 65,272 |
| Other accrued expenses and payables | | 49,696 |
| Total liabilities | | 4,233,461 |
| **Net assets, at value** | **$** | **77,123,259** |
| **Net Assets** | | |
| Net assets consist of: | | |
| Accumulated distributions in excess of net investment income | | (192,369) |
| Net unrealized appreciation (depreciation) on investments | | 4,301,596 |
| Accumulated net realized gain (loss) | | (11,103,924) |
| Paid-in capital | | 84,117,956 |
| **Net assets, at value** | **$** | **77,123,259** |
| **Class A** | | |
| **Net Asset Value,** offering and redemption price per share ($57,376,915 ÷ 9,098,642 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **6.31** |
| **Class B** | | |
| **Net Asset Value,** offering and redemption price per share ($19,746,344 ÷ 3,164,384 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **6.24** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

| | | |
|---|---|---|
| **Investment Income** | | |
| Income: | | |
| Dividends | $ | 301,100 |
| Interest — Scudder Cash Management QP Trust | | 7,252 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 1,688 |
| Total Income | | 310,040 |
| Expenses: | | |
| Management fee | | 382,799 |
| Custodian and accounting fees | | 37,198 |
| Distribution service fees (Class B) | | 24,723 |
| Record keeping fees (Class B) | | 12,128 |
| Auditing | | 21,459 |
| Legal | | 6,079 |
| Trustees' fees and expenses | | 1,162 |
| Reports to shareholders | | 8,057 |
| Interest expense | | 160 |
| Other | | 2,911 |
| Total expenses, before expense reductions | | 496,676 |
| Expense reductions | | (549) |
| Total expenses, after expense reductions | | 496,127 |
| **Net investment income (loss)** | | **(186,087)** |
| **Realized and Unrealized Gain (Loss) on Investment Transactions** | | |
| Net realized gain (loss) from investments | | (175,722) |
| Net unrealized appreciation (depreciation) during the period on investments | | (8,098,714) |
| **Net gain (loss) on investment transactions** | | **(8,274,436)** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **(8,460,523)** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (186,087) | $ 9,115 |
| Net realized gain (loss) on investment transactions | (175,722) | (429,310) |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (8,098,714) | 935,994 |
| Net increase (decrease) in net assets resulting from operations | (8,460,523) | 515,799 |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class A | (9,542) | — |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 956,064 | 11,773,909 |
| Reinvestment of distributions | 9,542 | — |
| Cost of shares redeemed | (8,014,363) | (16,798,283) |
| Net increase (decrease) in net assets from Class A share transactions | (7,048,757) | (5,024,374) |
| **Class B** | | |
| Proceeds from shares sold | 1,830,253 | 12,325,908 |
| Cost of shares redeemed | (1,699,351) | (1,539,908) |
| Net increase (decrease) in net assets from Class B share transactions | 130,902 | 10,786,000 |
| **Increase (decrease) in net assets** | (15,387,920) | 6,277,425 |
| Net assets at beginning of period | 92,511,179 | 86,233,754 |
| Net assets at end of period (including accumulated distributions in excess of net investment income and undistributed net investment income and of $192,369 and $3,260, respectively) | **$ 77,123,259** | **$ 92,511,179** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 10,189,476 | 11,043,224 |
| Shares sold | 151,832 | 1,718,999 |
| Shares issued to shareholders in reinvestment of distributions | 1,534 | — |
| Shares redeemed | (1,244,200) | (2,572,747) |
| Net increase (decrease) in Portfolio shares | (1,090,834) | (853,748) |
| Shares outstanding at end of period | **9,098,642** | **10,189,476** |
| **Class B** | | |
| Shares outstanding at beginning of period | 3,140,946 | 1,533,571 |
| Shares sold | 291,489 | 1,851,499 |
| Shares redeemed | (268,051) | (244,124) |
| Net increase (decrease) in Portfolio shares | 23,438 | 1,607,375 |
| Shares outstanding at end of period | **3,164,384** | **3,140,946** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 6.95** | **$ 6.86** | **$ 4.58** | **$ 7.60** | **$ 10.00** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[c] | (.01) | .01 | (.03) | (.02) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | (.63) | .08 | 2.31 | (3.00) | (2.38) |
| **Total from investment operations** | (.64) | .09 | 2.28 | (3.02) | (2.40) |
| Less distributions from: | | | | | |
| Net investment income | .00[e] | — | — | — | — |
| **Net asset value, end of period** | **$ 6.31** | **$ 6.95** | **$ 6.86** | **$ 4.58** | **$ 7.60** |
| Total Return (%) | (9.19)** | 1.31 | 49.78 | (39.74) | (24.00)[d]** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 57 | 71 | 76 | 41 | 44 |
| Ratio of expenses before expense reductions (%) | 1.14* | 1.10 | 1.13 | .96 | 1.44* |
| Ratio of expenses after expense reductions (%) | 1.14* | 1.10 | 1.13 | .96 | 1.15* |
| Ratio of net investment income (loss) (%) | (.37)* | .08 | (.48) | (.30) | (.43)* |
| Portfolio turnover rate (%) | 7* | 39 | 6 | 16 | 3* |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period from May 1, 2001 (commencement of operations of Class A) to December 31, 2001.*

[c] *Based on average shares outstanding during the period.*

[d] *Total return would have been lower had certain expenses not been reduced.*

[e] *Amount is less than $.005.*

* *Annualized*

** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 6.89** | **$ 6.83** | **$ 4.58** | **$ 5.04** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.02) | (.02) | (.06) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | (.63) | .08 | 2.31 | (.44) |
| **Total from investment operations** | (.65) | .06 | 2.25 | (.46) |
| **Net asset value, end of period** | **$ 6.24** | **$ 6.89** | **$ 6.83** | **$ 4.58** |
| Total Return (%) | (9.43)** | .88 | 49.13 | (9.13)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 20 | 22 | 10 | .4 |
| Ratio of expenses (%) | 1.51* | 1.49 | 1.52 | 1.21* |
| Ratio of net investment income (loss) (%) | (.74)* | (.20) | (.87) | (.68)* |
| Portfolio turnover rate (%) | 7* | 39 | 6 | 16 |

[a] *For the six months ended June 30, 2005 (Unaudited).*

[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*

[c] *Based on average shares outstanding during the period.*

* *Annualized*

** *Not annualized*

## SVS Turner Mid Cap Growth Portfolio

As an investor of the Portfolio, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Portfolio expenses. Examples of transaction costs include sales charges (loads), redemption fees and account maintenance fees, which are not shown in this section. The following tables are intended to help you understand your ongoing expenses (in dollars) of investing in the Portfolio and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The tables are based on an investment of $1,000 made at the beginning of the six-month period ended June 30, 2005.

The tables illustrate your Portfolio's expenses in two ways:

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses (but not transaction costs) paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses 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 "Expenses Paid per $1,000" line under the share class you hold.
- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses (but not transaction costs) with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical Portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

Please note that the expenses shown in these tables are meant to highlight your ongoing expenses only and do not reflect any transaction costs. The "Expenses Paid per $1,000" line of the tables is useful in comparing ongoing expenses only and will not help you determine the relative total expense of owning different funds. If these transaction costs had been included, your costs would have been higher.

**Expenses and Value of a $1,000 Investment** for the six months ended June 30, 2005

| Actual Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,005.10 | $ 1,002.00 |
| Expenses Paid per $1,000* | $ 5.72 | $ 7.59 |

| Hypothetical 5% Portfolio Return | Class A | Class B |
|---|---|---|
| Beginning Account Value 1/1/05 | $ 1,000.00 | $ 1,000.00 |
| Ending Account Value 6/30/05 | $ 1,019.09 | $ 1,017.21 |
| Expenses Paid per $1,000* | $ 5.76 | $ 7.65 |

* *Expenses are equal to the Portfolio's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by 365.*

| Annualized Expense Ratios | Class A | Class B |
|---|---|---|
| Scudder Variable Series II — SVS Turner Mid Cap Growth Portfolio | 1.15% | 1.53% |

For more information, please refer to the Portfolio's prospectus.

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option.

## SVS Turner Mid Cap Growth Portfolio

For the first half of 2005, SVS Turner Mid Cap Growth Portfolio returned 0.51% (Class A shares, unadjusted for contract charges) versus 1.70% for the Russell Midcap® Growth Index. Three phenomena served as share-price dampeners: rising interest rates, rising oil prices and sporadically rising inflation. The Federal Reserve Board (the Fed) boosted short-term rates to 3.25%. Oil prices rose about 40%, at one point in June hitting a 22-year high of $60.54 a barrel. At various times, the consumer price index rose at an annual rate of 3% — far from catastrophic but nonetheless higher than it had been for some time. The fear was that upticks in interest rates, oil prices and inflation would depress consumer spending, business investment, corporate profits and, consequently, stock prices.

Growth-oriented holdings in the consumer discretionary and utilities/communication sectors contributed the most to performance. Stocks that did especially well were in the apparel/footwear, wireless telecommunications and newspaper publishing industries. The biggest detractor from performance was the portfolio's large weighting in health care stocks. Stocks that fared poorly included holdings in the biotechnology and pharmaceutical industries.

We believe investors will gradually realize that stocks are reasonably valued, especially in relation to bonds, and that earnings should be satisfactory. We've seen a pattern over the past several quarters of companies exceeding Wall Street's earnings expectations. Those expectations have been modest and thus capable of being exceeded. If earnings keep coming in above the targets, then we believe that the market should respond positively, as it has in the past.

Christopher K. McHugh
William C. McVail
Robert E. Turner

Portfolio Managers
Turner Investment Partners, Inc., Subadvisor to the Portfolio

**All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit scudder.com for the product's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the portfolio or any variable life insurance policy or variable annuity contract for which the portfolio is an investment option. These charges and fees will reduce returns.**

### Risk Considerations

Stocks of medium-sized companies involve greater risks than securities of larger, more-established companies, as they often have limited product lines, markets or financial resources and may be subject to more erratic and abrupt market movements. Please read this portfolio's prospectus for specific details regarding its investments and risk profile.

*Russell Midcap® Growth Index is an unmanaged index composed of common stocks of midcap companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.*

*Portfolio management market commentary is as of June 30, 2005, and may not come to pass. This information is subject to change at any time based on market and other conditions.*

## SVS Turner Mid Cap Growth Portfolio

| **Asset Allocation** (Excludes Securities Lending Collateral) | 6/30/05 | 12/31/04 |
|---|---|---|
| Common Stocks | 99% | 99% |
| Cash Equivalents | 1% | 1% |
| | 100% | 100% |

| **Sector Diversification** (As a % of Common Stocks) | 6/30/05 | 12/31/04 |
|---|---|---|
| Information Technology | 25% | 31% |
| Consumer Discretionary | 23% | 18% |
| Health Care | 19% | 19% |
| Industrials | 9% | 11% |
| Financials | 8% | 9% |
| Energy | 7% | 5% |
| Telecommunication Services | 3% | 2% |
| Consumer Staples | 3% | 2% |
| Materials | 2% | 3% |
| Utilities | 1% | — |
| | 100% | 100% |

*Asset allocation and sector diversification are subject to change.*

*For more complete details about the Portfolio's investment portfolio, see page 216. A quarterly Fact Sheet is available upon request. Information concerning portfolio holdings of the Portfolio as of month end will be posted to scudder.com on the 15th of the following month.*

Following the Portfolio's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

## SVS Turner Mid Cap Growth Portfolio

| | Shares | Value ($) |
|---|---|---|
| **Common Stocks 98.2%** | | |
| **Consumer Discretionary 22.2%** | | |
| **Hotels Restaurants & Leisure 7.6%** | | |
| Harrah's Entertainment, Inc. | 20,080 | 1,447,166 |
| MGM MIRAGE* | 47,200 | 1,868,176 |
| P.F. Chang's China Bistro, Inc.* (e) | 12,310 | 726,044 |
| Scientific Games Corp. "A"* (e) | 43,460 | 1,170,378 |
| Starwood Hotels & Resorts Worldwide, Inc. | 32,560 | 1,907,039 |
| Station Casinos, Inc. | 16,590 | 1,101,576 |
| The Cheesecake Factory, Inc.* | 29,910 | 1,038,774 |
| WMS Industries, Inc.* (e) | 22,310 | 752,962 |
| | | **10,012,115** |
| **Household Durables 3.8%** | | |
| D.R. Horton, Inc. | 22,810 | 857,884 |
| Fortune Brands, Inc. | 21,740 | 1,930,512 |
| Lennar Corp. "A" | 9,610 | 609,754 |
| Tempur-Pedic International, Inc.* (e) | 29,620 | 656,972 |
| Toll Brothers, Inc.* (e) | 8,600 | 873,330 |
| | | **4,928,452** |
| **Media 1.5%** | | |
| Getty Images, Inc.* | 12,660 | 940,132 |
| Sirius Satellite Radio, Inc.* (e) | 151,840 | 983,923 |
| | | **1,924,055** |
| **Multiline Retail 0.7%** | | |
| Nordstrom, Inc. | 13,150 | **893,805** |
| **Specialty Retail 6.0%** | | |
| Advance Auto Parts, Inc.* | 10,810 | 697,786 |
| Bed Bath & Beyond, Inc.* | 48,010 | 2,005,858 |
| Chico's FAS, Inc.* | 56,890 | 1,950,189 |
| The Sherwin-Williams Co. | 11,560 | 544,360 |
| Urban Outfitters, Inc.* (e) | 27,490 | 1,558,408 |
| Williams-Sonoma, Inc.* | 27,770 | 1,098,859 |
| | | **7,855,460** |
| **Textiles, Apparel & Luxury Goods 2.6%** | | |
| Coach, Inc.* | 85,520 | 2,870,907 |
| Polo Ralph Lauren Corp. | 13,930 | 600,522 |
| | | **3,471,429** |
| **Consumer Staples 2.5%** | | |
| **Beverages 0.8%** | | |
| Constellation Brands, Inc. "A"* | 36,300 | **1,070,850** |
| **Food & Staples Retailing 0.9%** | | |
| Whole Foods Market, Inc. | 9,960 | **1,178,268** |
| **Food Products 0.8%** | | |
| Campbell Soup Co. | 16,530 | 508,628 |
| Dean Foods Co.* | 14,850 | 523,314 |
| | | **1,031,942** |

| | Shares | Value ($) |
|---|---|---|
| **Energy 6.6%** | | |
| **Energy Equipment & Services 2.8%** | | |
| Diamond Offshore Drilling, Inc. (e) | 14,530 | 776,338 |
| Grant Prideco, Inc.* | 35,180 | 930,511 |
| National-Oilwell Varco, Inc.* | 25,520 | 1,213,221 |
| Tidewater, Inc. | 17,120 | 652,614 |
| | | **3,572,684** |
| **Oil, Gas & Consumable Fuels 3.8%** | | |
| Peabody Energy Corp. | 16,470 | 857,099 |
| Range Resources Corp. (e) | 55,470 | 1,492,143 |
| Ultra Petroleum Corp.* | 39,970 | 1,213,489 |
| XTO Energy, Inc. | 42,556 | 1,446,479 |
| | | **5,009,210** |
| **Financials 8.3%** | | |
| **Banks 0.6%** | | |
| City National Corp. | 11,300 | **810,323** |
| **Capital Markets 3.9%** | | |
| Jefferies Group, Inc. | 18,870 | 714,984 |
| Northern Trust Corp. | 23,510 | 1,071,821 |
| SEI Investments Co. | 30,280 | 1,130,958 |
| T. Rowe Price Group, Inc. | 34,210 | 2,141,546 |
| | | **5,059,309** |
| **Diversified Financial Services 1.8%** | | |
| Affiliated Managers Group, Inc.* (e) | 21,954 | 1,500,117 |
| Ameritrade Holding Corp.* | 49,950 | 928,570 |
| | | **2,428,687** |
| **Insurance 0.5%** | | |
| Fidelity National Financial, Inc. | 18,410 | **657,053** |
| **Real Estate 1.5%** | | |
| Host Marriott Corp. (REIT) | 61,870 | 1,082,725 |
| The St. Joe Co. | 10,860 | 885,525 |
| | | **1,968,250** |
| **Health Care 18.6%** | | |
| **Biotechnology 1.7%** | | |
| Celgene Corp.* (e) | 22,920 | 934,449 |
| Genzyme Corp.* | 20,500 | 1,231,845 |
| | | **2,166,294** |
| **Health Care Equipment & Supplies 5.3%** | | |
| Advanced Medical Optics, Inc.* (e) | 21,610 | 858,997 |
| Bausch & Lomb, Inc. | 12,080 | 1,002,640 |
| C.R. Bard, Inc. | 29,110 | 1,936,106 |
| Dade Behring Holdings, Inc. | 23,010 | 1,495,880 |
| Fisher Scientific International, Inc.* | 16,770 | 1,088,373 |
| INAMED Corp.* | 8,480 | 567,906 |
| | | **6,949,902** |
| **Health Care Providers & Services 9.1%** | | |
| Community Health Systems, Inc.* | 31,640 | 1,195,676 |
| DaVita, Inc.* | 20,670 | 940,072 |
| Henry Schein, Inc.* | 21,890 | 908,873 |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| Laboratory Corp. of America Holdings* | 20,720 | 1,033,928 |
| LifePoint Hospitals, Inc.* | 12,700 | 641,604 |
| Medco Health Solutions, Inc.* | 12,790 | 682,474 |
| PacifiCare Health Systems, Inc.* | 21,260 | 1,519,027 |
| Patterson Companies, Inc.* (e) | 13,030 | 587,392 |
| Triad Hospitals, Inc.* | 14,710 | 803,754 |
| WellChoice, Inc.* | 20,360 | 1,414,409 |
| WellPoint, Inc.* | 32,060 | 2,232,659 |
| | | **11,959,868** |
| **Pharmaceuticals 2.5%** | | |
| Forest Laboratories, Inc.* | 16,510 | 641,414 |
| Kos Pharmaceuticals, Inc.* (e) | 11,300 | 740,150 |
| Sepracor, Inc.* | 30,550 | 1,833,305 |
| | | **3,214,869** |
| **Industrials 9.0%** | | |
| **Aerospace & Defense 1.3%** | | |
| Goodrich Corp. | 21,020 | 860,979 |
| Precision Castparts Corp. | 10,840 | 844,436 |
| | | **1,705,415** |
| **Air Freight & Logistics 1.2%** | | |
| C.H. Robinson Worldwide, Inc. | 13,060 | 760,092 |
| UTI Worldwide, Inc. (e) | 12,260 | 853,541 |
| | | **1,613,633** |
| **Commercial Services & Supplies 1.5%** | | |
| Monster Worldwide, Inc.* | 68,900 | **1,976,052** |
| **Construction & Engineering 0.4%** | | |
| Fluor Corp. | 8,850 | **509,671** |
| **Electrical Equipment 2.8%** | | |
| American Power Conversion Corp. | 30,530 | 720,203 |
| AMETEK, Inc. | 22,610 | 946,228 |
| Roper Industries, Inc. | 27,580 | 1,968,385 |
| | | **3,634,816** |
| **Machinery 1.8%** | | |
| Actuant Corp. "A"* (e) | 15,270 | 732,044 |
| Joy Global, Inc. | 19,080 | 640,897 |
| Pentair, Inc. | 21,570 | 923,412 |
| | | **2,296,353** |
| **Information Technology 25.0%** | | |
| **Communications Equipment 5.8%** | | |
| ADTRAN, Inc. | 22,170 | 549,594 |
| Comverse Technologies, Inc.* | 73,400 | 1,735,910 |
| F5 Networks, Inc.* | 37,070 | 1,751,001 |
| Ixia* (e) | 45,070 | 876,161 |
| Juniper Networks, Inc.* | 80,770 | 2,033,789 |
| Tellabs, Inc.* | 76,720 | 667,464 |
| | | **7,613,919** |
| **Computers & Peripherals 1.3%** | | |
| Avid Technology, Inc.* | 32,110 | **1,710,821** |
| **Electronic Equipment & Instruments 1.8%** | | |
| Cogent, Inc.* (e) | 47,190 | 1,347,274 |
| Flextronics International Ltd.* | 73,290 | 968,161 |
| | | **2,315,435** |
| **Internet Software & Services 3.0%** | | |
| CNET Networks, Inc.* (e) | 65,770 | 772,140 |
| Openwave Systems, Inc.* (e) | 68,210 | 1,118,644 |
| VeriSign, Inc.* | 68,950 | 1,983,002 |
| | | **3,873,786** |
| **IT Consulting & Services 2.7%** | | |
| Alliance Data Systems Corp.* | 15,380 | 623,813 |
| Cognizant Technology Solutions Corp. "A"* | 34,810 | 1,640,595 |
| Global Payments, Inc. | 17,920 | 1,214,976 |
| | | **3,479,384** |
| **Semiconductors & Semiconductor Equipment 9.4%** | | |
| Altera Corp.* | 105,540 | 2,091,803 |
| Analog Devices, Inc. | 20,580 | 767,840 |
| ASML Holding NV (New York Registered Shares)* (e) | 39,760 | 622,642 |
| Broadcom Corp. "A"* | 55,750 | 1,979,682 |
| Cypress Semiconductor Corp.* (e) | 83,450 | 1,050,635 |
| KLA-Tencor Corp. | 40,440 | 1,767,228 |
| Kulicke & Soffa Industries, Inc.* (e) | 68,810 | 544,287 |
| Lam Research Corp.* | 32,700 | 946,338 |
| Marvell Technology Group Ltd.* | 28,990 | 1,102,779 |
| National Semiconductor Corp. | 44,290 | 975,709 |
| Varian Semiconductor Equipment Associates, Inc.* (e) | 12,690 | 469,530 |
| | | **12,318,473** |
| **Software 1.0%** | | |
| Amdocs Ltd.* | 25,070 | 662,600 |
| Take-Two Interactive Software, Inc.* | 28,130 | 715,909 |
| | | **1,378,509** |
| **Materials 2.5%** | | |
| **Chemicals 1.1%** | | |
| Ashland, Inc.* | 9,570 | 687,796 |
| The Mosaic Co.* | 49,680 | 773,021 |
| | | **1,460,817** |
| **Construction Materials 0.4%** | | |
| Vulcan Materials Co. | 6,560 | **426,334** |
| **Containers & Packaging 0.5%** | | |
| Owens-Illinois, Inc.* | 27,360 | **685,368** |
| **Metals & Mining 0.5%** | | |
| Allegheny Technologies, Inc. | 29,470 | **650,108** |
| **Telecommunication Services 2.8%** | | |
| **Wireless Telecommunication Services** | | |
| Alamosa Holdings, Inc.* (e) | 89,160 | 1,239,324 |
| Nextel Partners, Inc. "A"* | 37,730 | 949,664 |
| NII Holdings, Inc.* (e) | 22,320 | 1,427,141 |
| | | **3,616,129** |
| **Utilities 0.7%** | | |
| **Gas Utilities** | | |
| Questar Corp. | 14,620 | **963,458** |
| **Total Common Stocks** (Cost $103,128,504) | | **128,391,306** |

*The accompanying notes are an integral part of the financial statements.*

| | Shares | Value ($) |
|---|---|---|
| **Securities Lending Collateral 14.1%** | | |
| Scudder Daily Assets Fund Institutional, 3.19% (c) (d) (Cost $18,408,231) | 18,408,231 | **18,408,231** |
| **Cash Equivalents 1.1%** | | |
| Scudder Cash Management QP Trust, 3.14% (b) (Cost $1,371,901) | 1,371,901 | **1,371,901** |

| | % of Net Assets | Value ($) |
|---|---|---|
| **Total Investment Portfolio** (Cost $122,908,636) (a) | 113.4 | **148,171,438** |
| **Other Assets and Liabilities, Net** | (13.4) | **(17,457,573)** |
| **Net Assets** | 100.0 | **130,713,865** |

## Notes to SVS Turner Mid Cap Growth Portfolio of Investments

* *Non-income producing security.*

(a) *The cost for federal income tax purposes was $122,960,248. At June 30, 2005, net unrealized appreciation for all securities based on tax cost was $25,211,190. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $25,720,567 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $509,377.*

(b) *Scudder Cash Management QP Trust is managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.*

(c) *Scudder Daily Assets Fund Institutional, an affiliated fund, is managed by Deutsche Asset Management, Inc. The rate shown is the annualized seven-day yield at period end.*

(d) *Represents collateral held in connection with securities lending.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at June 30, 2005 amounted to $17,840,623, which is 13.6% of net assets.*

*REIT: Real Estate Investment Trust*

*The accompanying notes are an integral part of the financial statements.*

# Financial Statements

## Statement of Assets and Liabilities
as of June 30, 2005 (Unaudited)

### Assets

| | | |
|---|---|---|
| Investments: | | |
| Investments in securities, at value (cost $103,128,504) — including $17,840,623 of securities on loan | $ | 128,391,306 |
| Investment in Scudder Daily Assets Fund Institutional (cost $18,408,231)* | | 18,408,231 |
| Investment in Scudder Cash Management QP Trust (cost $1,371,901) | | 1,371,901 |
| Total Investments in securities, at value (cost $122,908,636) | | 148,171,438 |
| Receivable for investments sold | | 2,006,980 |
| Dividends receivable | | 30,882 |
| Interest receivable | | 5,575 |
| Receivable for Portfolio shares sold | | 2,126 |
| Other assets | | 3,360 |
| Total assets | | 150,220,361 |

### Liabilities

| | | |
|---|---|---|
| Payable upon return of securities loaned | | 18,408,231 |
| Payable for investments purchased | | 730,243 |
| Payable for Portfolio shares redeemed | | 193,955 |
| Accrued management fee | | 109,462 |
| Other accrued expenses and payables | | 64,605 |
| Total liabilities | | 19,506,496 |
| **Net assets, at value** | **$** | **130,713,865** |

### Net Assets

| | | |
|---|---|---|
| Net assets consist of: | | |
| Accumulated net investment loss | | (547,328) |
| Net unrealized appreciation (depreciation) on investments | | 25,262,802 |
| Accumulated net realized gain (loss) | | 1,376,691 |
| Paid-in capital | | 104,621,700 |
| **Net assets, at value** | **$** | **130,713,865** |
| **Class A** | | |
| **Net Asset Value**, offering and redemption price per share ($107,541,501 ÷ 10,856,253 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.91** |
| **Class B** | | |
| **Net Asset Value**, offering and redemption price per share ($23,172,364 ÷ 2,364,704 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized) | **$** | **9.80** |

* *Represents collateral on securities loaned.*

## Statement of Operations
for the six months ended June 30, 2005 (Unaudited)

### Investment Income

| | | |
|---|---|---|
| Income: | | |
| Dividends (net of foreign taxes withheld of $316) | $ | 224,172 |
| Interest — Scudder Cash Management QP Trust | | 8,902 |
| Securities lending income, including income from Scudder Daily Assets Fund Institutional, net of borrower rebates | | 19,029 |
| Total Income | | 252,103 |
| Expenses: | | |
| Management fee | | 655,559 |
| Custodian and accounting fees | | 52,259 |
| Distribution service fees (Class B) | | 28,481 |
| Record keeping fees (Class B) | | 14,371 |
| Auditing | | 22,178 |
| Legal | | 7,162 |
| Trustees' fees and expenses | | 2,363 |
| Reports to shareholders | | 12,500 |
| Other | | 4,976 |
| Total expenses, before expense reductions | | 799,849 |
| Expense reductions | | (719) |
| Total expenses, after expense reductions | | 799,130 |
| **Net investment income (loss)** | | **(547,027)** |

### Realized and Unrealized Gain (Loss) on Investment Transactions

| | | |
|---|---|---|
| Net realized gain (loss) from investments | | 5,525,786 |
| Net unrealized appreciation (depreciation) during the period on investments | | (4,816,518) |
| **Net gain (loss) on investment transactions** | | **709,268** |
| **Net increase (decrease) in net assets resulting from operations** | **$** | **162,241** |

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Net Assets

| Increase (Decrease) in Net Assets | Six Months Ended June 30, 2005 (Unaudited) | Year Ended December 31, 2004 |
|---|---|---|
| Operations: | | |
| Net investment income (loss) | $ (547,027) | $ (1,138,786) |
| Net realized gain (loss) on investment transactions | 5,525,786 | 10,201,612 |
| Net unrealized appreciation (depreciation) during the period on investment transactions | (4,816,518) | 4,371,388 |
| Net increase (decrease) in net assets resulting from operations | 162,241 | 13,434,214 |
| Portfolio share transactions: | | |
| **Class A** | | |
| Proceeds from shares sold | 2,069,295 | 14,595,440 |
| Cost of shares redeemed | (12,176,887) | (17,916,695) |
| Net increase (decrease) in net assets from Class A share transactions | (10,107,592) | (3,321,255) |
| **Class B** | | |
| Proceeds from shares sold | 1,764,073 | 9,964,790 |
| Cost of shares redeemed | (1,990,214) | (2,100,980) |
| Net increase (decrease) in net assets from Class B share transactions | (226,141) | 7,863,810 |
| **Increase (decrease) in net assets** | (10,171,492) | 17,976,769 |
| Net assets at beginning of period | 140,885,357 | 122,908,588 |
| Net assets at end of period (including accumulated net investment loss of $547,328 and $301, respectively) | **$ 130,713,865** | **$ 140,885,357** |

## Other Information

| | | |
|---|---|---|
| **Class A** | | |
| Shares outstanding at beginning of period | 11,918,058 | 12,352,137 |
| Shares sold | 210,801 | 1,622,749 |
| Shares redeemed | (1,272,606) | (2,056,828) |
| Net increase (decrease) in Portfolio shares | (1,061,805) | (434,079) |
| Shares outstanding at end of period | **10,856,253** | **11,918,058** |
| **Class B** | | |
| Shares outstanding at beginning of period | 2,386,654 | 1,499,883 |
| Shares sold | 184,721 | 1,126,297 |
| Shares redeemed | (206,671) | (239,526) |
| Net increase (decrease) in Portfolio shares | (21,950) | 886,771 |
| Shares outstanding at end of period | **2,364,704** | **2,386,654** |

*The accompanying notes are an integral part of the financial statements.*

# Financial Highlights

## Class A

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002 | 2001[b] |
|---|---|---|---|---|---|
| **Selected Per Share Data** | | | | | |
| **Net asset value, beginning of period** | **$ 9.86** | **$ 8.88** | **$ 5.98** | **$ 8.82** | **$ 10.00** |
| *Income (loss) from investment operations:* | | | | | |
| Net investment income (loss)[c] | (.04) | (.07) | (.06) | (.06) | (.04) |
| Net realized and unrealized gain (loss) on investment transactions | .09 | 1.05 | 2.96 | (2.78) | (1.14) |
| **Total from investment operations** | .05 | .98 | 2.90 | (2.84) | (1.18) |
| **Net asset value, end of period** | **$ 9.91** | **$ 9.86** | **$ 8.88** | **$ 5.98** | **$ 8.82** |
| Total Return (%) | .51** | 11.04 | 48.49 | (32.20) | (11.80)[d]** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | | |
| Net assets, end of period ($ millions) | 108 | 118 | 110 | 61 | 48 |
| Ratio of expenses before expense reductions (%) | 1.15* | 1.19 | 1.18 | 1.13 | 1.82* |
| Ratio of expenses after expense reductions (%) | 1.15* | 1.19 | 1.18 | 1.13 | 1.30* |
| Ratio of net investment income (loss) (%) | (.77)* | (.82) | (.90) | (.82) | (.76)* |
| Portfolio turnover rate (%) | 132* | 174 | 155 | 225 | 205* |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period from May 1, 2001 (commencement of operations) to December 31, 2001.*
[c] *Based on average shares outstanding during the period.*
[d] *Total return would have been lower had certain expenses not been reduced.*
* *Annualized*
** *Not annualized*

## Class B

| Years Ended December 31, | 2005[a] | 2004 | 2003 | 2002[b] |
|---|---|---|---|---|
| **Selected Per Share Data** | | | | |
| **Net asset value, beginning of period** | **$ 9.78** | **$ 8.84** | **$ 5.97** | **$ 6.60** |
| *Income (loss) from investment operations:* | | | | |
| Net investment income (loss)[c] | (.05) | (.10) | (.09) | (.02) |
| Net realized and unrealized gain (loss) on investment transactions | .07 | 1.04 | 2.96 | (.61) |
| **Total from investment operations** | .02 | .94 | 2.87 | (.63) |
| **Net asset value, end of period** | **$ 9.80** | **$ 9.78** | **$ 8.84** | **$ 5.97** |
| Total Return (%) | .20** | 10.63 | 48.07 | (9.55)** |
| **Ratios to Average Net Assets and Supplemental Data** | | | | |
| Net assets, end of period ($ millions) | 23 | 23 | 13 | .6 |
| Ratio of expenses (%) | 1.53* | 1.56 | 1.57 | 1.38* |
| Ratio of net investment income (loss) (%) | (1.15)* | (1.19) | (1.29) | (.81)* |
| Portfolio turnover rate (%) | 132* | 174 | 155 | 225 |

[a] *For the six months ended June 30, 2005 (Unaudited).*
[b] *For the period July 1, 2002 (commencement of operations of Class B shares) to December 31, 2002.*
[c] *Based on an average shares outstanding during the period.*
* *Annualized*
** *Not annualized*

## A. Significant Accounting Policies

Scudder Variable Series II (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end, diversified management investment company organized as a Massachusetts business trust. The Trust offers thirty portfolios (the "portfolio(s)").

**Multiple Classes of Shares of Beneficial Interest.** The Trust offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to record keeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25%, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain portfolio-level expenses and expense reductions, if any, are borne pro rata on the basis of relative net assets by the holders of all classes of shares except that each class bears certain expenses unique to that class (including the applicable 12b-1 fee and record keeping fee). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Trust's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Trust in the preparation of its financial statements.

**Security Valuation.** Investments in securities are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price or official closing price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Debt securities are valued by independent pricing services approved by the Trustees of the Portfolios. If the pricing services are unable to provide valuations, the securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from a broker-dealer. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees. The Portfolios may use a fair valuation model to value international equity securities in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange.

**Foreign Currency Translations.** The books and records of the Trust are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

**Repurchase Agreements.** The portfolios may enter into repurchase agreements with certain banks and broker/dealers whereby the portfolios, through their custodian or sub-custodian bank, receive delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodian bank holds the collateral in a separate account until the agreement matures. If the value of the securities falls below the principal amount of the repurchase agreement plus accrued interest, the financial institution deposits additional collateral by the following business day. If the financial institution either fails to deposit the required additional collateral or fails to repurchase the securities as agreed, the portfolios have the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the portfolios' claims on the collateral may be subject to legal proceedings.

**Securities Lending.** Each portfolio, except Scudder Money Market Portfolio, may lend securities to financial institutions. The portfolios retain beneficial ownership of the securities they have loaned and continue to receive interest and dividends paid by the securities and to participate in any changes in their market value. The portfolio requires the borrowers of the securities to maintain collateral with the portfolio consisting of liquid, unencumbered assets having a value at least equal to the value of the securities loaned. The portfolio may invest the cash collateral into a joint trading account in an affiliated money market fund pursuant to Exemptive Orders issued by the SEC. The portfolios receive compensation for lending their securities either in the form of fees or by earning interest on invested cash collateral net fees paid to a lending agent. Either the portfolios or the borrower may terminate the loan. The portfolios are subject to all investment risks associated with the value of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

**Credit Default Swap Contracts.** A credit default swap is a contract between a buyer and a seller of protection against a pre-defined credit event. The Company may buy or sell credit default swap contracts to seek to increase the Company's income, to add leverage to the portfolio, or to hedge the risk of default on portfolio securities. As a seller in the credit default swap contract, the Company would be required to pay the par (or other agreed-upon) value of the referenced debt obligation to the counterparty in the event of a default by a third party, such as a US or foreign corporate issuer, on the debt obligation, which would likely result in a loss to the Company. In return, the Company would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Company would keep the stream of payments and would have no payment obligations. The Company may also buy credit default swap contracts in order to hedge against the risk of default of debt securities, in which case the Company would function as the counterparty referenced above. This would involve the risk that the contract may expire worthless. It would also involve credit risk — that the seller may fail to satisfy its payment obligations to the Company in the event of a default. When the Company sells a credit default swap contract it will "cover" its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the underlying debt obligations for all outstanding credit default swap contracts sold by the Company.

Credit default swap contracts are marked to market daily based upon quotations from the counterparty and the change in value, if any, is recorded daily as unrealized gain or loss. An upfront payment made by the Scudder Strategic Income Portfolio, as the protection buyer, is recorded as an asset on the statement of assets and liabilities. An upfront payment received by the Scudder Strategic Income Portfolio, as the protection seller, is recorded as a liability on the statement of assets and liabilities. Under the terms of the credit default swap contracts, the Company receives or makes payments semi-annually based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss on the statement of operations. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses.

**Options.** An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the portfolio if the option is exercised. The portfolios may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the portfolio's obligation under an exchange traded written option or investment in a purchased option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid and asked price are available. Over-the-counter written or purchased options are valued using dealer-supplied quotations. Gain or loss is recognized when the option contract expires or is closed.

If the portfolio writes a covered call option, the portfolio foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the portfolio writes a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The portfolio's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the portfolio's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

**Futures Contracts.** A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). The portfolios may enter into futures contracts as a hedge against anticipated interest rate, currency or equity market changes and for duration management, risk management and return enhancement purposes.

Upon entering into a futures contract, the portfolio is required to deposit with a financial intermediary an amount ("initial margin") equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the portfolio dependent upon the daily fluctuations in the value of the underlying security and are recorded for financial reporting purposes as unrealized gains or losses by the portfolio. When entering into a closing transaction, the portfolio will realize a gain or loss equal to the difference between the value of the futures contract to sell and the futures contract to buy. Futures contracts are valued at the most recent settlement price.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid secondary market will limit the portfolio's ability to close out a futures contract prior to the settlement date and that a change in the value of a futures contract may not correlate exactly with the changes in the value of the securities or currencies hedged. When utilizing futures contracts to hedge, the portfolio gives up the opportunity to profit from favorable price movements in the hedged positions during the term of the contract.

**Forward Foreign Currency Exchange Contracts.** A forward foreign currency exchange contract (forward currency contract) is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The portfolios may enter into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. Sales and purchases of forward currency contracts having the same settlement date and broker are offset and any gain (loss) is realized on the date of offset; otherwise, gain (loss) is realized on settlement date. Realized and unrealized gains and losses which represent the difference between the value of a forward currency contract to buy and a forward currency contract to sell are included in net realized and unrealized gain (loss) from foreign currency related transactions.

Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the portfolio gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

**Loan Participations/Assignments.** The Portfolios may invest in US dollar-denominated fixed and floating rate loans ("Loans") arranged through private negotiations between a foreign sovereign entity and one or more financial institutions ("Lenders"). The Portfolios invest in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in the Portfolios having a contractual relationship only with the Lender, not with the sovereign borrower. The Portfolios have the right to receive payments of principal, interest and any fees to which they are entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Portfolios generally have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Portfolios will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Portfolios assume the credit risk of both the borrower and the Lender that is selling the Participation.

**Mortgage Dollar Rolls.** Scudder Fixed Income Portfolio, Scudder Government & Agency Securities Portfolio and Scudder Total Return Portfolio entered into mortgage dollar rolls in which each portfolio sells to a bank or broker/dealer (the "counterparty") mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities on a fixed date. The counterparty receives all principal and interest payments, including prepayments, made on the security while it is the holder. Each portfolio receives compensation as consideration for entering into the commitment to repurchase. The compensation is paid in the form of a lower price for the security upon its repurchase, or alternatively, a fee. Mortgage dollar rolls may be renewed with a new sale and repurchase price and a cash settlement made at each renewal without physical delivery of the securities subject to the contract.

Mortgage dollar rolls may be treated for purposes of the 1940 Act as borrowings by each portfolio because they involve the sale of a security coupled with an agreement to repurchase. A mortgage dollar roll involves costs to each portfolio. For example, while each portfolio receives compensation as consideration for agreeing to repurchase the security, each portfolio forgoes the right to receive all principal and interest payments while the counterparty holds the security. These payments to the counterparty may exceed the compensation received by each portfolio, thereby effectively charging each portfolio interest on its borrowings. Further, although each portfolio can estimate the amount of expected principal prepayment over the term of the mortgage dollar roll, a variation in the actual amount of prepayment could increase or decrease the cost of each portfolio's borrowing.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before each portfolio is able to repurchase them. There can be no assurance that each portfolio's use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its borrowing costs.

**When-Issued/Delayed Delivery Securities.** Several of the portfolios may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the portfolio enters into a commitment to purchase a security, the transaction is recorded and the value of the security is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the portfolio until payment takes place. At the time the portfolio enters into this type of transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery securities from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

**Federal Income Taxes.** The portfolios' policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable and tax-exempt income to its shareholders. Accordingly, the portfolios paid no federal income taxes and no federal income tax provision was required.

At December 31, 2004, the following portfolios had an approximate net tax basis capital loss carryforward which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the following expiration dates, whichever occurs first:

| Portfolio | Capital Loss Carryforward ($) | Expiration Date |
|---|---|---|
| Scudder Aggressive Growth Portfolio | 662,000 | 12/31/2008 |
| | 5,489,000 | 12/31/2009 |
| | 8,989,000 | 12/31/2010 |
| | 23,998,000 | 12/31/2011 |
| Scudder Blue Chip Portfolio | 16,525,000 | 12/31/2010 |
| Scudder Global Blue Chip Portfolio | 2,280,000 | 12/31/2010 |
| | 2,456,000 | 12/31/2011 |
| Scudder High Income Portfolio | 4,823,000 | 12/31/2007 |
| | 16,114,000 | 12/31/2008 |
| | 22,935,000 | 12/31/2009 |
| | 55,108,000 | 12/31/2010 |
| | 13,877,000 | 12/31/2011 |
| Scudder International Select Equity Portfolio* | 1,217,000 | 12/31/2008 |
| | 23,867,000 | 12/31/2009 |
| | 20,015,000 | 12/31/2010 |
| | 4,400,000 | 12/31/2011 |
| Scudder Large Cap Value Portfolio | 6,183,000 | 12/31/2008 |
| | 11,765,000 | 12/31/2010 |
| | 6,438,000 | 12/31/2011 |
| Scudder Small Cap Growth Portfolio | 73,835,000 | 12/31/2009 |
| | 62,668,000 | 12/31/2010 |
| Scudder Technology Growth Portfolio | 1,211,000 | 12/31/2008 |
| | 94,141,000 | 12/31/2009 |
| | 93,499,000 | 12/31/2010 |
| | 71,516,000 | 12/31/2011 |
| Scudder Total Return Portfolio | 21,387,000 | 12/31/2009 |
| | 8,813,000 | 12/31/2010 |
| | 46,269,000 | 12/31/2011 |
| SVS Davis Venture Value Portfolio | 127,000 | 12/31/2009 |
| | 4,386,000 | 12/31/2010 |
| | 1,390,000 | 12/31/2011 |
| | 1,088,000 | 12/31/2012 |
| SVS Dreman Financial Services Portfolio | 743,000 | 12/31/2009 |
| | 2,479,000 | 12/31/2010 |
| | 2,101,000 | 12/31/2011 |
| SVS Dreman High Return Equity Portfolio | 11,267,000 | 12/31/2010 |
| | 8,043,000 | 12/31/2011 |
| SVS Index 500 Portfolio | 448,000 | 12/31/2008 |
| | 3,267,000 | 12/31/2009 |
| | 9,116,000 | 12/31/2010 |

| Portfolio | Capital Loss Carryforward ($) | Expiration Date |
|---|---|---|
| | 3,518,000 | 12/21/2011 |
| | 4,052,000 | 12/31/2012 |
| SVS INVESCO Dynamic Growth Portfolio | 2,320,000 | 12/31/2010 |
| | 377,000 | 12/31/2011 |
| SVS Janus Growth And Income Portfolio | 12,514,000 | 12/31/2009 |
| | 29,907,000 | 12/31/2010 |
| | 6,934,000 | 12/31/2011 |
| SVS Janus Growth Opportunities Portfolio | 130,000 | 12/31/2008 |
| | 31,299,000 | 12/31/2009 |
| | 42,499,00 | 12/31/2010 |
| | 19,473,000 | 12/31/2011 |
| SVS Oak Strategic Equity Portfolio | 322,000 | 12/31/2009 |
| | 4,401,000 | 12/31/2010 |
| | 2,522,000 | 12/31/2011 |
| | 3,689,000 | 12/31/2012 |
| SVS Turner Mid Cap Growth Portfolio | 3,770,000 | 12/31/2010 |

* *Certain of these losses may be subject to limitations under Section 381–383 of the Internal Revenue Code.*

For the period from November 1, 2004 through December 31, 2004, the following portfolios incurred approximate net realized capital losses as follows:

| Portfolio | Net Realized Capital Loss ($) |
|---|---|
| Scudder Aggressive Growth Portfolio | 12,000 |
| Scudder Fixed Income Portfolio | 827,000 |
| Scudder Strategic Income Portfolio | 266,000 |
| SVS Davis Venture Value Portfolio | 576,000 |
| SVS Dreman Financial Services Portfolio | 330,000 |

As permitted by tax regulations, the portfolios intend to elect to defer these losses and treat them as arising in the fiscal year ended December 31, 2005.

**Distribution of Income and Gains.** Distributions of net investment income, if any, for all portfolios except the Scudder Money Market Portfolio, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the portfolio if not distributed and, therefore, will be distributed to shareholders at least annually. All of the net investment income of the Scudder Money Market Portfolio is declared as a daily dividend and is distributed to shareholders monthly.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, a portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the portfolio.

The tax character of current year distributions will be determined at the end of the current fiscal year.

**Expenses.** Expenses arising in connection with a specific portfolio are allocated to that portfolio. Trust expenses are allocated between the portfolios in proportion to their relative net assets.

**Contingencies.** In the normal course of business, the Portfolios may enter into contracts with service providers that contain general indemnification clauses. The Portfolios' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolios that have not yet been made. However, based on experience, the Portfolios expect the risk of loss to be remote.

**Other.** Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for all portfolios, with the exception of securities in default of principal.

## B. Investment Transactions

During the six months ended June 30, 2005, purchases and sales of investment transactions (excluding short-term investments) were as follows:

| Portfolio | Purchases ($) | Proceeds from Sales ($) |
|---|---|---|
| Scudder Aggressive Growth Portfolio | 25,043,770 | 27,861,335 |
| Scudder Blue Chip Portfolio | 455,554,881 | 450,873,779 |
| Scudder Fixed Income Portfolio | | |
| excluding US Treasury Obligations and mortgage dollar roll transactions | 133,975,204 | 119,439,854 |
| US Treasury Obligations | 203,896,630 | 207,767,617 |
| mortgage dollar roll transactions | 25,067,546 | 24,452,433 |
| Scudder Global Blue Chip Portfolio | 31,729,396 | 26,533,920 |
| Scudder Government & Agency Securities Portfolio | | |
| excluding US Treasury Obligations and mortgage dollar roll transactions | 310,780,555 | 260,685,659 |
| US Treasury Obligations | 45,353,144 | 45,426,758 |
| mortgage dollar roll transactions | 289,074,235 | 290,549,648 |
| Scudder High Income Portfolio | 263,730,307 | 287,874,288 |
| Scudder International Select Equity Portfolio | 100,707,615 | 85,843,475 |
| Scudder Large Cap Value Portfolio | 63,358,115 | 82,588,009 |
| Scudder Small Cap Growth Portfolio | 116,882,200 | 129,011,537 |
| Scudder Strategic Income Portfolio | 81,015,531 | 77,467,870 |
| Scudder Technology Growth Portfolio | 129,024,732 | 143,636,030 |
| Scudder Total Return Portfolio | | |
| excluding US Treasury Obligations and mortgage dollar roll transactions | 381,077,290 | 346,886,713 |
| US Treasury Obligations | 129,189,395 | 124,710,835 |
| mortgage dollar roll transactions | 7,160,255 | 7,187,656 |
| SVS Davis Venture Value Portfolio | 30,054,164 | 2,652,228 |
| SVS Dreman Financial Services Portfolio | 17,814,584 | 27,482,795 |
| SVS Dreman High Return Equity Portfolio | 37,225,768 | 30,302,196 |
| SVS Dreman Small Cap Value Portfolio | 177,405,748 | 180,996,732 |
| SVS Index 500 Portfolio | 26,121,508 | 41,439,201 |
| SVS INVESCO Dynamic Growth Portfolio | 24,726,471 | 25,784,025 |
| SVS Janus Growth And Income Portfolio | 30,611,534 | 39,126,042 |
| SVS Janus Growth Opportunities Portfolio | 32,616,774 | 23,801,500 |
| SVS Oak Strategic Equity Portfolio | 2,991,453 | 10,473,351 |
| SVS Turner Mid Cap Growth Portfolio | 87,027,058 | 99,525,773 |

For the six months ended June 30, 2005, transactions for written options on securities were as follows for the Scudder Technology Growth Portfolio:

| | Contract Amounts | Premium ($) |
|---|---|---|
| Beginning of period | 2,074 | 332,731 |
| Written | 17,196 | 2,011,354 |
| Closed | (6,263) | (1,020,570) |
| Exercised | (5,642) | (672,327) |
| Expired | (4,466) | (395,994) |
| **End of period** | **2,899** | **255,194** |

## C. Related Parties

**Management Agreement.** Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the portfolios in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the portfolios. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Management Agreement. Accordingly, for the six months ended June 30, 2005, the fees pursuant to the Management Agreement were equivalent to the annualized effective rates shown below of the portfolios' average daily net assets:

| Portfolio | Annual Management Fee Rate |
|---|---|
| Scudder Blue Chip Portfolio | 0.65% |
| Scudder Fixed Income Portfolio | 0.60% |
| Scudder Government & Agency Securities Portfolio | 0.55% |
| Scudder High Income Portfolio | 0.60% |
| Scudder International Select Equity Portfolio | 0.75% |
| Scudder Large Cap Value Portfolio | 0.75% |
| Scudder Small Cap Growth Portfolio | 0.65% |
| Scudder Strategic Income Portfolio | 0.65% |
| SVS Dreman Small Cap Value Portfolio | 0.75% |
| SVS Index 500 Portfolio | 0.20% |

For the period January 1, 2005 through May 1, 2005, the Scudder Total Return Portfolio paid a monthly investment management fee of 0.55%, based on the average daily net assets of the portfolio.

Effective May 2, 2005, the Scudder Total Return Portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 0.470% |
| next $750 million | 0.445% |
| over $1 billion | 0.410% |

Accordingly, for the six months ended June 30, 2005, the fee pursuant to the Management Agreement was equivalent to the annualized effective rate of 0.51% of the Scudder Total Return Portfolio's average daily net assets.

For the six months ended June 30, 2005, the Advisor agreed to limit its fees and reimburse expenses of each class of the SVS Index 500 Portfolio to the extent necessary to maintain the annual expenses of Class A at 0.377% and Class B at 0.627% (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and fund accounting outsourcing fee savings). Accordingly, for the six months ended June 30, 2005, the Advisor waived $13,907 of other expenses.

The Scudder Money Market Portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$215 million | 0.500% |
| next $335 million | 0.375% |
| next $250 million | 0.300% |
| over $800 million | 0.250% |

Accordingly, for the six months ended June 30, 2005, the fee pursuant to the Management Agreement was equivalent to the annualized effective rate of 0.46% of the Scudder Money Market Portfolio's average daily net assets.

The Scudder Aggressive Growth Portfolio, Scudder Technology Growth Portfolio, SVS Dreman Financial Services Portfolio and SVS Dreman High Return Equity Portfolio each pay a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 0.75% |
| next $750 million | 0.72% |
| next $1.5 billion | 0.70% |
| next $2.5 billion | 0.68% |
| next $2.5 billion | 0.65% |
| next $2.5 billion | 0.64% |
| next $2.5 billion | 0.63% |
| over $12.5 billion | 0.62% |

For the six months ended June 30, 2005, the Advisor agreed to limit its fees and reimburse expenses of each class of the Scudder Aggressive Growth Portfolio to the extent necessary to maintain the annual expenses of Class A at 0.95% and Class B at 1.35%. (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and fund accounting outsourcing fee savings). For the six months ended June 30, 2005, the Advisor waived $14,548 of management fees.

Accordingly, for the six months ended June 30, 2005, the fees pursuant to the Management Agreement were equivalent to the annualized effective rates shown below of the portfolios' average daily net assets:

| Portfolio | Annualized Effective Rate |
|---|---|
| Scudder Aggressive Growth Portfolio | 0.70% |
| Scudder Technology Growth Portfolio | 0.75% |
| SVS Dreman Financial Services Portfolio | 0.75% |
| SVS Dreman High Return Equity Portfolio | 0.73% |

SVS INVESCO Dynamic Growth Portfolio and SVS Turner Mid Cap Growth Portfolio each paid a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 1.000% |
| next $250 million | 0.975% |
| next $500 million | 0.950% |
| next $1.5 billion | 0.925% |
| Over $2.5 billion | 0.900% |

For the six months ended June 30, 2005, the Advisor agreed to limit its fees and reimburse expenses of each class of the SVS INVESCO Dynamic Growth Portfolio to the extent necessary to maintain the annual expenses of Class A at 1.30% and Class B at 1.70% (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and fund accounting outsourcing fee savings). For the six months ended June 30, 2005, the Advisor waived $29,081 of management fees.

Accordingly, for the six months ended June 30, 2005, the fees pursuant to the Management Agreement were equivalent to the annualized effective rates shown below of the portfolios' average daily net assets:

| Portfolio | Annualized Effective Rate |
|---|---|
| SVS INVESCO Dynamic Growth Portfolio | 0.86% |
| SVS Turner Mid Cap Growth Portfolio | 1.00% |

SVS Davis Venture Value Portfolio, SVS Janus Growth And Income Portfolio, SVS Janus Growth Opportunities Portfolio and SVS Oak Strategic Equity Portfolio each paid a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 0.950% |
| next $250 million | 0.925% |
| next $500 million | 0.900% |
| next $1.5 billion | 0.875% |
| Over $2.5 billion | 0.850% |

Effective May 1, 2005, the SVS Janus Growth And Income Portfolio and SVS Janus Growth Opportunities Portfolio each pay a monthly investment management fee based on the average daily net assets of the Portfolio, computed and accrued daily and payable monthly, of 1/12 of the annual rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 0.750% |
| next $750 million | 0.725% |
| next $1.5 billion | 0.700% |
| Over $2.5 billion | 0.675% |

Accordingly, for the six months ended June 30, 2005, the fees pursuant to the Management Agreement were equivalent to the annualized effective rates shown below of the portfolios' average daily net assets:

| Portfolio | Annualized Effective Rate |
|---|---|
| SVS Davis Venture Value Portfolio | 0.94% |
| SVS Janus Growth And Income Portfolio | 0.88% |
| SVS Janus Growth Opportunities Portfolio | 0.88% |
| SVS Oak Strategic Equity Portfolio | 0.95% |

For the six months ended June 30, 2005, the Advisor agreed to limit its fees and reimburse expenses of each class of the SVS Oak Strategic Equity Portfolio to the extent necessary to maintain the annual expenses of Class A at 1.15% and Class B at 1.55% (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and fund accounting outsourcing fee savings).

The Scudder Global Blue Chip Portfolio pays a monthly investment management fee, based on the average daily net assets of the portfolio, computed and accrued daily and payable monthly, of 1/12 of the annualized rates shown below:

| Average Daily Net Assets of the Portfolio | Annual Management Fee Rate |
|---|---|
| $0–$250 million | 1.00% |
| next $500 million | 0.95% |
| next $750 million | 0.90% |
| next $1.5 billion | 0.85% |
| Over $3 billion | 0.80% |

Accordingly, for the six months ended June 30, 2005, the fee pursuant to the Management Agreement was equivalent to an annualized effective rate of 1.00% of Scudder Global Blue Chip Portfolio's average daily net assets.

Deutsche Asset Management Investment Services Limited ("DeAMIS") serves as sub-advisor to the Scudder International Select Equity, Scudder Strategic Income and Scudder Total Return Portfolios and is paid by the Advisor for its services.

Dreman Value Management, L.L.C. serves as sub-advisor to the SVS Dreman Financial Services, SVS Dreman High Return Equity and SVS Dreman Small Cap Value Portfolios and is paid by the Advisor for its services.

INVESCO Institutional (N.A.) Inc. serves as sub-advisor to the SVS INVESCO Dynamic Growth Portfolio and is paid by the Advisor for its services. Effective August 1, 2005, Salomon Brothers Asset Management Inc. will become the sub-advisor to the Portfolio and the portfolio's name will be changed to Scudder Salomon Aggressive Growth Portfolio.

Janus Capital Management, L.L.C., formerly Janus Capital Corporation, serves as sub-advisor to the SVS Janus Growth And Income and SVS Janus Growth Opportunities Portfolios and is paid by the Advisor for its services.

Turner Investment Partners, Inc. serves as sub-advisor to the SVS Turner Mid Cap Growth Portfolio and is paid by the Advisor for its services.

Oak Associates, Ltd. serves as sub-advisor to the SVS Oak Strategic Equity Portfolio and is paid by the Advisor for its services.

Davis Selected Advisers, L.P., serves as sub-advisor to the SVS Davis Venture Value Portfolio and is paid by the Advisor for its services.

Northern Trust Investments, N.A. ("NTI") serves as sub-advisor to SVS Index 500 Portfolio and is paid by the Advisor for its services.

**Service Provider Fees.** Scudder Fund Accounting Corporation ("SFAC"), a subsidiary of the Advisor, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of each portfolio. In turn, SFAC has delegated certain fund accounting functions to a third-party service provider. For the six months ended June 30, 2005, SFAC received the following fee for its services for the following portfolios:

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Scudder Aggressive Growth Portfolio | 29,032 | 3,911 |
| Scudder Global Blue Chip Portfolio | 47,605 | 5,515 |
| Scudder Technology Growth Portfolio | 39,687 | 6,909 |
| SVS Davis Venture Value Portfolio | 38,915 | 6,192 |
| SVS Dreman Financial Services Portfolio | 29,243 | — |
| SVS Dreman High Return Equity Portfolio | 63,813 | 9,592 |
| SVS Index 500 Portfolio | 78,192 | 13,886 |
| SVS INVESCO Dynamic Growth Portfolio | 44,305 | 5,753 |
| SVS Janus Growth And Income Portfolio | 34,935 | 5,229 |
| SVS Janus Growth Opportunities Portfolio | 30,808 | 6,463 |
| SVS Oak Strategic Equity Portfolio | 33,556 | 11,198 |
| SVS Turner Mid Cap Growth Portfolio | 43,686 | 7,549 |

**Distribution Service Agreement**. Under the Distribution Service Agreement, in accordance with Rule 12b-1 under the 1940 Act, Scudder Investments Service Company ("SISC") receives a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the six months ended June 30, 2005, the Distribution Service Fee was as follows:

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Scudder Aggressive Growth Portfolio | 7,355 | 1,310 |
| Scudder Blue Chip Portfolio | 48,153 | 7,833 |
| Scudder Fixed Income Portfolio | 109,823 | 16,586 |
| Scudder Global Blue Chip Portfolio | 16,829 | 3,016 |
| Scudder Government & Agency Securities Portfolio | 60,246 | 9,965 |
| Scudder High Income Portfolio | 68,995 | 11,193 |
| Scudder International Select Equity Portfolio | 60,905 | 10,162 |
| Scudder Large Cap Value Portfolio | 49,923 | 8,088 |
| Scudder Money Market Portfolio | 65,674 | 11,268 |
| Scudder Small Cap Growth Portfolio | 37,559 | 7,392 |
| Scudder Strategic Income Portfolio | 27,695 | 4,162 |
| Scudder Technology Growth Portfolio | 18,303 | 3,004 |
| Scudder Total Return Portfolio | 40,693 | 6,647 |
| SVS Davis Venture Value Portfolio | 84,510 | 14,040 |
| SVS Dreman Financial Services Portfolio | 20,707 | 3,415 |
| SVS Dreman High Return Equity Portfolio | 148,083 | 24,968 |
| SVS Dreman Small Cap Value Portfolio | 88,706 | 14,457 |

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| SVS Index 500 Portfolio | 79,807 | 17,515 |
| SVS INVESCO Dynamic Growth Portfolio | 8,972 | 1,423 |
| SVS Janus Growth And Income Portfolio | 33,296 | 5,579 |
| SVS Janus Growth Opportunities Portfolio | 10,018 | 1,716 |
| SVS Oak Strategic Equity Portfolio | 24,723 | 4,041 |
| SVS Turner Mid Cap Growth Portfolio | 28,481 | 4,729 |

**Typesetting and Filing Service Fees.** Under an agreement with DeIM, DeIM is compensated for providing typesetting and regulatory filing services to the Portfolios. For the six months ended June 30, 2005, the amounts charged to the Portfolios by DeIM included in reports to shareholders were as follows:

| Portfolio | Total Aggregated ($) | Unpaid at June 30, 2005 ($) |
|---|---|---|
| Scudder Aggressive Growth Portfolio | 5,385 | 2,651 |
| Scudder Blue Chip Portfolio | 5,385 | 2,651 |
| Scudder Fixed Income Portfolio | 5,385 | 2,651 |
| Scudder Global Blue Chip Portfolio | 5,385 | 2,651 |
| Scudder Government & Agency Securities Portfolio | 5,385 | 2,651 |
| Scudder High Income Portfolio | 5,385 | 2,651 |
| Scudder International Select Equity Portfolio | 3,924 | 2,651 |
| Scudder Large Cap Value Portfolio | 5,385 | 2,651 |
| Scudder Money Market Portfolio | 5,385 | 2,651 |
| Scudder Small Cap Growth Portfolio | 5,385 | 2,651 |
| Scudder Strategic Income Portfolio | 5,385 | 2,651 |
| Scudder Technology Growth Portfolio | 5,385 | 2,651 |
| Scudder Total Return Portfolio | 5,385 | 2,651 |
| SVS Davis Venture Value Portfolio | 3,924 | 2,651 |
| SVS Dreman Financial Services Portfolio | 5,385 | 2,651 |
| SVS Dreman High Return Equity Portfolio | 5,385 | 2,651 |
| SVS Dreman Small Cap Value Portfolio | 5,385 | 2,651 |
| SVS Index 500 Portfolio | 5,385 | 2,651 |
| SVS INVESCO Dynamic Growth Portfolio | 3,924 | 2,651 |
| SVS Janus Growth And Income Portfolio | 3,924 | 2,651 |
| SVS Janus Growth Opportunities Portfolio | 3,924 | 2,651 |
| SVS Oak Strategic Equity Portfolio | 3,924 | 2,651 |
| SVS Turner Mid Cap Growth Portfolio | 3,924 | 2,651 |

**Trustees' Fees and Expenses.** The portfolios pay each Trustee not affiliated with the Advisor retainer fees plus specified amounts for attended board and committee meetings.

**Scudder Cash Management QP Trust.** Pursuant to an Exemptive Order issued by the SEC, the portfolios may invest in the Scudder Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Advisor. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Advisor a management fee for the affiliated funds' investments in the QP Trust.

## D. Investing in High Yield Securities

Investing in high yield securities may involve greater risks and considerations not typically associated with investing in US Government bonds and other high quality fixed-income securities. These securities are non-investment grade securities, often referred to as "junk bonds." Economic downturns may disrupt the high yield market and impair the ability of issuers to repay principal and interest. Also, an increase in interest rates would likely have an adverse impact on the value of such obligations. Moreover, high yield securities may be less liquid due to the extent that there is no established retail secondary market and because of a decline in the value of such securities.

## E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, delayed settlements and their prices more volatile than those of comparable securities in the United States of America.

## F. Expense Reductions

For the six months ended June 30, 2005, the Advisor agreed to reimburse the Portfolios which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider in the following amounts:

| Portfolio | Amount ($) |
|---|---|
| Scudder Aggressive Growth Portfolio | 460 |
| Scudder Blue Chip Portfolio | 1,251 |
| Scudder Fixed Income Portfolio | 1,213 |
| Scudder Global Blue Chip Portfolio | 514 |
| Scudder Government & Agency Securities Portfolio | 1,289 |
| Scudder High Income Portfolio | 1,643 |
| Scudder International Select Equity Portfolio | 978 |
| Scudder Large Cap Value Portfolio | 1,240 |
| Scudder Money Market Portfolio | 1,207 |
| Scudder Small Cap Growth Portfolio | 994 |
| Scudder Strategic Income Portfolio | 542 |
| Scudder Technology Growth Portfolio | 988 |
| Scudder Total Return Portfolio | 2,245 |
| SVS Davis Venture Value Portfolio | 1,325 |
| SVS Dreman Financial Services Portfolio | 750 |
| SVS Dreman High Return Equity Portfolio | 2,926 |
| SVS Dreman Small Cap Value Portfolio | 1,913 |
| SVS Index 500 Portfolio | 1,473 |
| SVS INVESCO Dynamic Growth Portfolio | 403 |
| SVS Janus Growth And Income Portfolio | 918 |
| SVS Janus Growth Opportunities Portfolio | 725 |
| SVS Oak Strategic Equity Portfolio | 544 |
| SVS Turner Mid Cap Growth Portfolio | 700 |

In addition, the portfolios have entered into arrangements with their custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the portfolios' expenses. During the six months ended June 30, 2005, the portfolios' custodian fees were reduced under these arrangements as follows:

| Portfolio | Amount ($) |
|---|---|
| Scudder Aggressive Growth Portfolio | 20 |
| Scudder Blue Chip Portfolio | 116 |
| Scudder Fixed Income Portfolio | 729 |
| Scudder Government & Agency Securities Portfolio | 131 |
| Scudder High Income Portfolio | 2,881 |
| Scudder Large Cap Value Portfolio | 37 |
| Scudder Money Market Portfolio | 24 |
| Scudder Small Cap Growth Portfolio | 110 |
| Scudder Strategic Income Portfolio | 376 |
| Scudder Technology Growth Portfolio | 98 |
| Scudder Total Return Portfolio | 1,041 |
| SVS Davis Venture Value Portfolio | 29 |
| SVS Dreman High Return Equity Portfolio | 179 |

| Portfolio | Amount ($) |
|---|---|
| SVS Dreman Small Cap Value Portfolio | 368 |
| SVS Index 500 Portfolio | 23 |
| SVS INVESCO Dynamic Growth Portfolio | 41 |
| SVS Janus Growth And Income Portfolio | 47 |
| SVS Janus Growth Opportunities Portfolio | 26 |
| SVS Oak Strategic Equity Portfolio | 5 |
| SVS Turner Mid Cap Growth Portfolio | 19 |

## G. Forward Foreign Currency Exchange Contracts

As of June 30, 2005, the following portfolios had entered into the following forward foreign currency exchange contracts resulting in the following:

### Scudder High Income Portfolio

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Appreciation (US$) |
|---|---|---|---|---|---|
| EUR | 72,525 | USD | 97,784 | 9/9/2005 | 9,783 |
| EUR | 317,385 | USD | 413,203 | 9/9/2005 | 28,091 |
| EUR | 306,130 | USD | 396,326 | 9/27/2005 | 24,590 |
| EUR | 72,725 | USD | 93,041 | 9/27/2005 | 4,731 |
| EUR | 149,490 | USD | 181,656 | 9/27/2005 | 129 |
| EUR | 5,453,015 | USD | 6,906,762 | 11/18/2005 | 267,941 |
| **Total unrealized appreciation** | | | | | **$ 335,265** |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| MXN | 12,156,988 | USD | 1,078,254 | 11/10/2005 | **$ (27,507)** |

### Scudder Strategic Income Portfolio

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Appreciation (US$) |
|---|---|---|---|---|---|
| SEK | 16,270,238 | USD | 2,276,959 | 7/22/05 | $ 194,669 |
| USD | 4,337,187 | AUD | 5,749,948 | 7/22/05 | 141,350 |
| USD | 1,487,121 | CHF | 1,858,634 | 7/22/05 | 52,153 |
| EUR | 143,000 | USD | 187,919 | 7/28/05 | 14,701 |
| EUR | 961,000 | USD | 1,259,775 | 7/28/05 | 95,700 |
| EUR | 110,000 | USD | 142,340 | 7/28/05 | 9,095 |
| USD | 110,000 | MXN | 1,216,270 | 7/28/05 | 2,575 |
| USD | 138,000 | ARS | 403,374 | 8/26/05 | 1,315 |
| USD | 55,000 | ARS | 162,663 | 8/26/05 | 1,179 |
| EUR | 4,835 | USD | 6,519 | 9/9/05 | 652 |
| EUR | 48,089 | USD | 62,607 | 9/9/05 | 4,256 |
| EUR | 50,483 | USD | 62,027 | 9/27/05 | 725 |
| EUR | 402,792 | USD | 510,174 | 11/18/05 | 19,792 |
| **Total unrealized appreciation** | | | | | **$ 538,162** |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| CAD | 12,195,891 | USD | 9,784,305 | 7/22/2005 | (167,055) |
| USD | 956,786 | EUR | 742,000 | 7/22/2005 | (58,176) |
| USD | 2,816,465 | EUR | 2,300,000 | 7/22/2005 | (31,013) |
| USD | 1,582,000 | JPY | 169,985,900 | 7/22/2005 | (46,175) |
| USD | 2,721,688 | JPY | 284,000,000 | 7/22/2005 | (155,743) |
| USD | 1,025,641 | JPY | 110,000,000 | 7/22/2005 | (31,790) |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| MXN | 3,102,000 | USD | 273,619 | 7/28/2005 | (10,496) |
| MXN | 2,020,950 | USD | 180,000 | 7/28/2005 | (7,055) |
| TRY | 250,440 | USD | 178,758 | 7/28/2005 | (7,759) |
| USD | 243,086 | EUR | 200,000 | 7/28/2005 | (823) |
| USD | 225,000 | EUR | 178,222 | 7/28/2005 | (9,117) |
| USD | 190,692 | EUR | 157,000 | 7/28/2005 | (516) |
| USD | 180,000 | PLN | 593,136 | 7/28/2005 | (2,706) |
| USD | 190,000 | PLN | 631,997 | 7/28/2005 | (1,090) |
| USD | 184,187 | RUB | 5,102,000 | 7/28/2005 | (6,302) |
| ARS | 566,036 | USD | 190,520 | 8/26/2005 | (4,973) |
| MXN | 1,576,549 | USD | 139,830 | 11/10/2005 | (3,565) |
| **Total unrealized depreciation** | | | | | **$ (544,354)** |

**Scudder Total Return Portfolio**

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Appreciation (US$) |
|---|---|---|---|---|---|
| NZD | 957,552 | AUD | 880,000 | 7/28/2005 | $ 6,696 |
| USD | 674,670 | CLP | 399,000 | 7/28/2005 | 15,717 |
| EUR | 102,000 | USD | 133,123 | 7/28/2005 | 9,568 |
| EUR | 46,000 | USD | 55,876 | 7/28/2005 | 155 |
| EUR | 3,571,700 | USD | 4,415,656 | 7/28/2005 | 355,684 |
| EUR | 1,098,000 | USD | 1,426,873 | 7/28/2005 | 96,848 |
| EUR | 544,365 | USD | 708,700 | 7/28/2005 | 49,302 |
| GBP | 378,136 | SEK | 5,200,000 | 7/28/2005 | 15,625 |
| GBP | 4,025,000 | USD | 7,641,532 | 7/28/2005 | 437,864 |
| GBP | 12,000 | USD | 22,221 | 7/28/2005 | 744 |
| GBP | 384,026 | JPY | 74,900,000 | 7/28/2005 | 13,713 |
| GBP | 380,000 | USD | 680,546 | 7/28/2005 | 448 |
| JPY | 73,641,100 | NZD | 962,000 | 7/28/2005 | 13,159 |
| JPY | 74,000,000 | USD | 677,780 | 7/28/2005 | 8,811 |
| KRW | 590,000,000 | USD | 590,159 | 7/28/2005 | 19,861 |
| KRW | 120,000,000 | USD | 115,993 | 7/28/2005 | 3,887 |
| NZD | 681,000 | USD | 493,398 | 7/28/2005 | 20,878 |
| NZD | 3,389,000 | USD | 2,420,932 | 7/28/2005 | 69,435 |
| SEK | 5,100,000 | EUR | 554,733 | 7/28/2005 | 27,729 |
| SEK | 5,200,000 | GBP | 368,382 | 7/28/2005 | 4,569 |
| TWD | 18,400,000 | USD | 589,366 | 7/28/2005 | 8,808 |
| EUR | 62,568 | USD | 81,680 | 9/9/2005 | 5,661 |
| EUR | 14,505 | USD | 19,557 | 9/9/2005 | 1,956 |
| EUR | 45,300 | USD | 55,047 | 9/27/2005 | 39 |
| EUR | 489,852 | USD | 620,444 | 11/18/2005 | 24,069 |
| **Total unrealized appreciation** | | | | | **$ 1,211,226** |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| USD | 128,932 | AUD | 166,000 | 7/28/2005 | $ (2,798) |
| USD | 651,441 | AUD | 844,000 | 7/28/2005 | (10,131) |
| USD | 681,477 | AUD | 890,000 | 7/28/2005 | (5,214) |
| USD | 204,192 | EUR | 168,000 | 7/28/2005 | (691) |
| USD | 190,000 | EUR | 150,499 | 7/28/2005 | (7,699) |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| SEK | 5,100,000 | EUR | 554,733 | 7/28/2005 | (9,560) |
| SEK | 5,200,000 | GBP | 368,392 | 7/28/2005 | (11,869) |
| USD | 1,430,188 | JPY | 150,531,000 | 7/28/2005 | (69,369) |
| GBP | 384,026 | JPY | 74,900,000 | 7/28/2005 | (23,910) |
| USD | 706,538 | KRW | 710,000,000 | 7/28/2005 | (20,247) |
| MXN | 7,096,400 | USD | 631,187 | 7/28/2005 | (25,645) |
| MXN | 42,879,300 | USD | 3,865,104 | 7/28/2005 | (167,950) |
| MXN | 3,500,000 | USD | 314,975 | 7/28/2005 | (8,978) |
| JPY | 73,641,100 | NZD | 962,000 | 7/28/2005 | (11,388) |
| AUD | 880,000 | NZD | 957,552 | 7/28/2005 | (10,953) |
| EUR | 544,365 | PLN | 2,270,000 | 7/28/2005 | (30,174) |
| GBP | 378,136 | SEK | 5,200,000 | 7/28/2005 | (25,780) |
| USD | 243,937 | SEK | 1,706,000 | 7/28/2005 | (25,239) |
| USD | 1,206,835 | SEK | 8,510,000 | 7/28/2005 | (115,907) |
| USD | 697,418 | SGD | 1,140,000 | 7/28/2005 | (20,508) |
| USD | 682,266 | SGD | 1,130,000 | 7/28/2005 | (11,294) |
| USD | 598,569 | TWD | 18,400,000 | 7/28/2005 | (18,011) |
| USD | 12,712 | EUR | 9,670 | 9/9/2005 | (979) |
| USD | 218,251 | MXN | 2,460,710 | 11/10/2005 | (5,568) |
| **Total unrealized depreciation** | | | | | **$ (639,862)** |

**SVS Janus Growth And Income Portfolio**

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Appreciation (US$) |
|---|---|---|---|---|---|
| CHF | 375,000 | USD | 306,535 | 7/1/2005 | $ 13,584 |
| CHF | 555,000 | USD | 463,620 | 7/15/2005 | 30,052 |
| CHF | 25,000 | USD | 21,159 | 7/15/2005 | 1,630 |
| EUR | 1,490,000 | USD | 1,925,229 | 7/15/2005 | 121,175 |
| CHF | 925,000 | USD | 773,411 | 8/19/2005 | 48,865 |
| **Total unrealized appreciation** | | | | | **$ 215,306** |

| Contracts to Deliver | | In Exchange For | | Settlement Date | Unrealized Depreciation (US$) |
|---|---|---|---|---|---|
| EUR | 200,000 | USD | 242,924 | 12/2/2005 | **$ (740)** |

*Currency Abbreviations:*

| | | | |
|---|---|---|---|
| ARS | Argentine Peso | MXN | Mexican Peso |
| AUD | Australian Dollar | NZD | New Zealand Dollar |
| CAD | Canadian Dollar | PLN | Polish Zloty |
| CHF | Swiss Franc | RUB | Russian Ruble |
| CLP | Chilean Peso | SEK | Swedish Krona |
| EUR | Euro | SGD | Singapore Dollar |
| GBP | British Pound | TRY | New Turkish Lira |
| JPY | Japanese Yen | TWD | Taiwanese Dollar |
| KRW | Korean Won | USD | United States Dollar |

## H. Ownership of the Portfolios

At June 30, 2005, the beneficial ownership in the portfolios was as follows:

**Scudder Aggressive Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 61% and 31%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 82% and 17%.

**Scudder Blue Chip Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53% and 34%. Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 78%, 11% and 11%.

**Scudder Fixed Income Portfolio:** One Participating Insurance Company was owner of record of 10% or more of the total outstanding Class A shares of the Portfolio, owning 35%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 83%.

**Scudder Global Blue Chip Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 60% and 38%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 70% and 30%.

**Scudder Government & Agency Securities Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 41%, 31% and 19%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 88%.

**Scudder High Income Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 38%, 32% and 26%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 80% and 19%.

**Scudder International Select Equity Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 42%, 28% and 26%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 61% and 39%.

**Scudder Large Cap Value Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 42%, 34% and 16%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 82% and 18%.

**Scudder Money Market Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 39%, 35% and 24%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 52% and 48%.

**Scudder Small Cap Growth Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 47%, 24% and 22%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 85% and 15%.

**Scudder Strategic Income Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 54% and 43%. Two Participating Insurance Companies were owners of record of 10% or more of the outstanding Class B shares of the Portfolio, each owning 69% and 31%.

**Scudder Technology Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 62% and 34%. Two Participating Insurance Companies were owners of record of 10% or more of the outstanding Class B shares of the Portfolio, each owning 81% and 17%.

**Scudder Total Return Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 39%, 26% and 17%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 76% and 24%.

**SVS Davis Venture Value Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 76% and 22%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 74% and 15%.

**SVS Dreman Financial Services Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 57% and 40%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 75% and 25%.

**SVS Dreman High Return Equity Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 67% and 27%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 15%.

**SVS Dreman Small Cap Value Portfolio:** Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 57%, 28% and 13%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 76% and 18%.

**SVS Index 500 Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 68% and 30%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 10%.

**SVS INVESCO Dynamic Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 81% and 19%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 90%.

**SVS Janus Growth And Income Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 70% and 29%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 85% and 15%.

**SVS Janus Growth Opportunities Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 61% and 27%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 90%.

**SVS Oak Strategic Equity Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 80% and 19%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 81% and 19%.

**SVS Turner Mid Cap Growth Portfolio:** Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 81% and 19%. Two Participating Insurance Companies were the owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 84% and 16%.

## I. Line of Credit

The Trust and several other affiliated funds (the "Participants") share in a $1.1 billion revolving credit facility administered by J.P. Morgan Chase Bank for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The facility borrowing limit for each portfolio as a percent of net assets is as follows:

| Portfolio | Facility Borrowing Limit |
|---|---|
| Scudder Aggressive Growth Portfolio | 33% |
| Scudder Blue Chip Portfolio | 33% |
| Scudder Fixed Income Portfolio | 33% |
| Scudder Global Blue Chip Portfolio | 33% |
| Scudder Government & Agency Securities Portfolio | 33% |
| Scudder High Income Portfolio | 33% |
| Scudder International Select Equity Portfolio | 33% |
| Scudder Large Cap Value Portfolio | 33% |
| Scudder Money Market Portfolio | 33% |
| Scudder Small Cap Growth Portfolio | 33% |
| Scudder Strategic Income Portfolio | 33% |
| Scudder Technology Growth Portfolio | 5% |
| Scudder Total Return Portfolio | 33% |
| SVS Davis Venture Value Portfolio | 33% |
| SVS Dreman Financial Services Portfolio | 33% |
| SVS Dreman High Return Equity Portfolio | 33% |
| SVS Dreman Small Cap Value Portfolio | 33% |
| SVS Index 500 Portfolio | 33% |
| SVS INVESCO Dynamic Growth Portfolio | 33% |
| SVS Janus Growth And Income Portfolio | 33% |
| SVS Janus Growth Opportunities Portfolio | 33% |
| SVS Oak Strategic Equity Portfolio | 33% |
| SVS Turner Mid Cap Growth Portfolio | 33% |

At June 30, 2005, the outstanding loan information was as follows:

| | Loan Outstanding | Interest Expense | Average of Borrowings | Weighted Average Interest Rate |
|---|---|---|---|---|
| Scudder Government & Agency Securities Portfolio | $ 9,950,000 | $ — | $ 9,950,000 | 3.94% |
| SVS Dreman Financial Services Portfolio | 150,000 | 3,434 | 435,393 | 3.22% |

## J. Regulatory Matters and Litigation

Since at least July 2003, federal, state and industry regulators have been conducting ongoing inquiries and investigations ("inquiries") into the mutual fund industry, and have requested information from numerous mutual fund companies, including Scudder Investments. It is not possible to determine what the outcome of these inquiries will be or what the effect, if any, would be on the funds or their advisors. Publicity about mutual fund practices arising from these industry-wide inquiries serves as the general basis of a number of private lawsuits against the Scudder funds. These lawsuits, which previously have been reported in the press, involve purported class action and derivative lawsuits, making various allegations and naming as defendants various persons, including certain Scudder funds, the funds' investment advisors and their affiliates, certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each Scudder fund's investment advisor has agreed to indemnify the applicable Scudder funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making allegations similar to these lawsuits regarding market timing, revenue sharing, fund valuation or other subjects arising from or related to the pending inquiries. Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a Scudder fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the Scudder funds.

## K. Fund Merger

On March 9, 2005, the Trustees of the SVS Index 500 Portfolio approved, in principle, the merger of the Portfolio into Scudder VIT Equity 500 Index Fund, which is managed by the same portfolio manager. Completion of the merger is subject to a number of conditions, including final approval by the Portfolio's Trustees and approval by the shareholders of the Portfolio at a shareholder meeting expected to be held within approximately the next three months.

## L. Acquisition of Assets

On April 29, 2005, the Scudder Small Cap Growth Portfolio acquired all of the net assets of Scudder Variable Series I 21st Century Growth Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 7,739,831 Class A shares and 1,627,657 Class B shares of the Scudder Variable Series I 21st Century Growth Portfolio, respectively, for 3,256,621 Class A shares and 680,062 Class B shares of the Scudder Small Cap Growth Portfolio, respectively, outstanding on April 29, 2005. Scudder Variable Series I 21st Century Growth Portfolio's net assets at that date of $45,435,834, including $4,404,910 of net unrealized appreciation, were combined with those of the Scudder Small Cap Growth Portfolio. The aggregate net assets of the Scudder Small Cap Growth Portfolio immediately before the acquisition were $209,671,733. The combined net assets of the Scudder Small Cap Growth Portfolio immediately following the acquisitions were $255,107,567.

On April 29, 2005, the Scudder Total Return Portfolio acquired all of the net assets of Scudder Variable Series I Balanced Portfolio pursuant to a plan of reorganization approved by shareholders on April 20, 2005. The acquisition was accomplished by a tax-free exchange of 10,773,456 Class A shares of the Scudder Variable Series I Balanced Portfolio for 5,591,767 Class A shares of the Total Return Portfolio outstanding on April 29, 2005. Scudder Variable Series I Balanced Portfolio's net assets at that date of $118,997,707, including $9,126,657 of net unrealized appreciation, were combined with those of the Scudder Total Return Portfolio. The aggregate net assets of the Scudder Total Return Portfolio immediately before the acquisition were $598,273,318. The combined net assets of the Scudder Total Return Portfolio immediately following the acquisitions were $717,271,025.

## M. Other — Fixed Income Portfolio

Deutsche Bank has signed an agreement with Aberdeen Asset Management ("Aberdeen") to sell parts of the United Kingdom and Philadelphia-based asset management business of Deutsche Asset Management. This proposed sale, which is subject to regulatory approval, is not yet approved by the Board or shareholders. In the event the sale is approved, it is expected that Aberdeen, or an affiliate thereof, would become subadvisor to the fund.

# Proxy Voting

A description of the Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — scudder.com (type "proxy voting" in the search field) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Trust's policies and procedures without charge, upon request, call us toll free at (800) 621-1048.

## SVS Janus Growth And Income Portfolio

At its March 9, 2005 meeting, the Board considered a proposal by Deutsche Investment Management Americas Inc. (the "Advisor"), the investment adviser to the SVS Janus Growth And Income Portfolio (the "fund"), that the Board approve new management and sub-advisory fee schedules for the fund.

The Board, and the Independent Trustees, normally consider the renewal of the fund's investment management and sub-advisory agreements annually pursuant to a process that concludes at the Board's September Board meeting following a multi-month review process. In connection with its annual consideration of the investment management and sub-advisory agreements, the Board considered the following factors, among others, when determining whether to approve or continue the agreements:

- the nature, extent and quality of the services provided by the Advisor and sub-advisor
- the investment performance of the fund and the Advisor and sub-advisor
- the cost of the services provided and the profits realized by the Advisor and its affiliates from the relationship with the fund
- the extent to which economies of scale would be realized as the fund grows
- whether fee levels reflect these economies of scale for the benefit of fund investors

In response to a request from the Independent Trustees, the Advisor submitted a proposal to reduce the investment management fees paid by the fund. The Advisor proposed that the annual investment management fees be 0.750% of average net assets up to $250 million, 0.725% of the next $750 million, 0.700% of the next $1.5 billion and 0.675% thereafter, and that the annual sub-advisory fees to be paid by the Advisor to the sub-advisor, Janus Capital Management, LLC ("Janus"), be reduced to 0.450% of average net assets up to $25 million, 0.400% of the next $125 million, 0.375% of the next $600 million and 0.350% thereafter. At its March 9, 2005 meeting, the Board considered the proposal, noting in particular the Advisor's representation that, notwithstanding the lower fee schedules, there would be no diminution in the quality or nature of the services provided by the Advisor and Janus to the fund. The Board concluded the fee reductions were appropriate. The Board therefore determined to approve the amended investment management and sub-advisory agreements to take effect on May 1, 2005. The Board is currently reviewing the amended management and sub-advisory agreements as part of its annual contract review process that will culminate at the Board's September 2005 meeting.

## SVS Janus Growth Opportunities Portfolio

At its March 9, 2005 meeting, the Board considered a proposal by Deutsche Investment Management Americas Inc. (the "Advisor"), the investment adviser to the SVS Janus Growth Opportunities Portfolio (the "fund"), that the Board approve new management and sub-advisory fee schedules for the fund.

The Board, and the Independent Trustees, normally consider the renewal of the fund's investment management and sub-advisory agreements annually pursuant to a process that concludes at the Board's September Board meeting following a multi-month review process. In connection with its annual consideration of the investment management and sub-advisory agreements, the Board considered the following factors, among others, when determining whether to approve or continue the agreements:

- the nature, extent and quality of the services provided by the Advisor and sub-advisor
- the investment performance of the fund and the Advisor and sub-advisor
- the cost of the services provided and the profits realized by the Advisor and its affiliates from the relationship with the fund
- the extent to which economies of scale would be realized as the fund grows
- whether fee levels reflect these economies of scale for the benefit of fund investors

In response to a request from the Independent Trustees, the Advisor submitted a proposal to reduce the investment management fees paid by the fund. The Advisor proposed that the annual investment management fees be 0.750% of average net assets up to $250 million, 0.725% of the next $750 million, 0.700% of the next $1.5 billion and 0.675% thereafter, and that the annual sub-advisory fees to be paid by the Advisor to the sub-advisor, Janus Capital Management, LLC ("Janus"), be reduced to 0.450% of average net assets up to $25 million, 0.400% of the next $125 million, 0.375% of the next $600 million and 0.350% thereafter. At its March 9, 2005 meeting, the Board considered the proposal, noting in particular the Advisor's representation that, notwithstanding the lower fee schedules, there would be no diminution in the quality or nature of the services provided by the Advisor and Janus to the fund. The Board concluded the fee reductions were appropriate. The Board therefore determined to approve the amended investment management and sub-advisory agreements to take effect on May 1, 2005. The Board is currently reviewing the amended management and sub-advisory agreements as part of its annual contract review process that will culminate at the Board's September 2005 meeting.

## SVS INVESCO Dynamic Growth Portfolio

In connection with a proposed change in sub–advisor (from INVESCO Institutional (N.A.) Inc. ("INVESCO") to Salomon Brothers Asset Management Inc. ("SBAM")), discussed further below, at the Board of Trustees meeting on May 11, 2005, Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor") proposed to the Board that the SVS INVESCO Dynamic Growth Portfolio (the "fund") adopt a "manager–of–managers" structure relating to its sub–advisory relationship. As part of the conversion to a "manager–of–managers" structure, DeIM proposed that a new investment management agreement with DeIM for the fund (the "New Agreement") be approved by the Board. As part of the change in sub–advisor, DeIM also proposed to lower its investment management fees to reflect the lower fees charged by SBAM.

The Board, and the Independent Trustees, normally consider the renewal of the fund's investment management and sub-advisory agreements annually pursuant to a process that concludes at the Board's September meeting following a multi-month review process. In connection with its last annual consideration of the current investment management agreement (the "Current Agreement") in September 2004, the Board considered the following factors, among others, in determining to continue the Agreement: (i) the nature, extent and quality of the services provided by the Advisor; (ii) the investment performance of the fund and the Advisor; (iii) the cost of the services provided and the profits realized by the Advisor and its affiliates from the relationship with the fund; (iv) the extent to which economies of scale would be realized as the fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of fund investors. In connection with the Board's consideration of the New Agreement, the Trustees took note of their previous considerations as well as considering that the management fee schedule proposed under the New Agreement is lower than the current fee schedule. In addition, the Board approved an amendment of the Current Agreement, effective August 1, 2005, to implement a new management fee schedule as of the date of the Interim Sub-Advisory Agreement, as discussed below. The Board also considered the Advisor's representation that there would be no diminution in services provided in connection with the amendment to the Current Agreement to reflect the new management fee schedule.

The Board approved the amendment to the Current Agreement at the May 11, 2005 meeting, and also approved the New Agreement and recommended its approval to shareholders. In approving the amendment to the Current Agreement and the New Agreement, the Board, including the Independent Trustees, reviewed materials from the Advisor relating to the proposed management fee and services to be provided as well as other information, and the Independent Trustees were advised by independent counsel regarding their duties in connection with contract approvals.

**Nature, Extent and Quality of Services and Investment Performance.** The Board reviewed the nature, extent and quality of the administrative, legal and other services provided by DeIM. The Board considered the size, education and experience of DeIM's staff, its use of technology and its approach to recruiting, training and retaining portfolio managers and other research and management personnel. The Board also considered the nature, quality, cost and extent of administrative and shareholder services performed by DeIM and its affiliated companies. The Board noted that DeIM previously delegated to INVESCO, and would delegate to SBAM, responsibility for furnishing a continuous investment program for the fund, and making investment decisions with respect to the fund's assets. The Board considered DeIM's continuing responsibility to oversee whoever is serving as sub–advisor. The Board noted that the Advisor conducted an extensive search for a successor to INVESCO, performed extensive due diligence on the proposed successor, including retaining an independent entity to assess SBAM, and provided the Board with information on SBAM's investment approach. The Board also reviewed information regarding the SBAM Aggressive Growth Team, including the investment performance of a portfolio managed by the team in a strategy similar to that which SBAM will apply to the fund. Based on the information provided and the Board's familiarity with the Advisor, the Board concluded that the nature, extent and quality of the services provided by DeIM were appropriate.

**Fees and Expenses.** The Board considered the management fee rate proposed for the fund under the amendment to the Current Agreement and the New Agreement and the management fees of funds in a peer group considered by DeIM to be the fund's most direct peers in the variable annuity marketplace. The Board considered that the management fee rate under the amendment to the Current Agreement and the New Agreement was lower than the management fee rate under the Current Agreement. The Board considered the new spread between the management fee under the amendment to the Current Agreement and the New Agreement and the SBAM sub-advisory fee rate and reviewed an asset-weighted spread analysis for the new spread compared against the spread under the prior sub-advisory agreement with INVESCO. The Board considered that the new spread was lower. The Board also considered information provided by the Advisor on the impact of the new management fee schedule on the fund's overall expenses, and the expense caps to which the Advisor had agreed. The Board concluded that the management fee schedule was reasonable and appropriate in light of the quality of services provided by the Advisor and the spread it would receive.

**Profitability.** In connection with its annual consideration of the Current Agreement, the Board had considered the level of DeIM's profits with respect to the management of the fund, including a review of DeIM's methodology in allocating its costs to the management of the fund. The Board considered the profits realized by DeIM in connection with the operation of the fund and whether the amount of profit is a fair entrepreneurial profit for the management of the fund. The Board considered, in connection with the New Agreement, that any profitability achieved by the Advisor under the Current Agreement might be reduced because of the lower management fee rate. The Board concluded that the anticipated profitability of the New Agreement to the Advisor was reasonable.

**Economies of Scale.** The Board considered whether there are economies of scale with respect to the management of the fund and whether the fund benefits from any economies of scale. The Board considered whether the management fee rate under the amendment to the Current Agreement and the New Agreement is reasonable in relation to the asset size of the fund. The Board noted that the management fee included three breakpoints, designed to share economies of scale with the shareholders. The Board noted that the expense caps imposed by the Advisor for the one year period beginning May 1, 2005, which are to continue under the amendment to the Current Agreement and the New Agreement in a proportional amount, resulted in shareholders having an expense ratio that is lower than that to which they otherwise would have been subject. The Board concluded that the proposed management fee schedule reflected economies of scale that would benefit shareholders.

**Other Benefits to DeIM and Its Affiliates.** The Board also considered the character and amount of other incidental benefits received by DeIM and its affiliates, including fees received by the Advisor for administrative services provided to the fund and fees received by an affiliate of the Advisor for distribution services. The Board concluded that these fall-out benefits were reasonable in light of the services provided.

Based on all of the information considered and the conclusions reached, the Board determined that the terms of the amendment to the Current Agreement and of the New Agreement are fair and reasonable and that the amendment to the Current Agreement and the New Agreement are in the best interests of the fund.

## Board Considerations for Interim and New Sub-Advisory Agreements

In March 2005, DeIM proposed to the Board that INVESCO, which then served as sub-advisor to the fund, be replaced as sub-advisor with SBAM. At a meeting held on May 11, 2005, the Board approved the termination of INVESCO upon 60 days' notice and the retention of SBAM as sub-advisor for the fund under an interim sub-advisory agreement (the "Interim Sub-Advisory Agreement") for up to 150 days. The Board also approved a new sub-advisory agreement between SBAM and DeIM (the "New Sub-Advisory Agreement"), which fund shareholders will be asked to approve. On August 1, 2005, the Interim Sub-Advisory Agreement became effective. In connection with the change in sub-advisor, the name of the fund was changed to Scudder Salomon Aggressive Growth Portfolio and modifications were made to the fund's investment objective and policies.

In connection with the retention of SBAM under the Interim Sub-Advisory Agreement and the New Sub-Advisory Agreement, the Board, including the Independent Trustees, received materials from the Advisor relating to the services to be provided under the Agreements, including information about (i) the nature, extent and quality of services to be provided by SBAM, including information with respect to portfolio management services to be provided; (ii) the proposed sub-advisory fee rate relative to a peer group; (iii) the investment performance of a fund managed by SBAM in a style similar to the fund, measured against appropriate benchmarks; and (iv) general information about SBAM. The Independent Trustees also were advised by independent counsel regarding their duties in connection with contract approvals.

**Nature, Extent and Quality of Services and Investment Performance.** The Board reviewed SBAM's investment performance for other products. In particular, the Board considered the investment performance of SBAM in the Smith Barney Aggressive Growth Fund, a fund managed by SBAM in a style similar to the fund. The Board considered the size, education and experience of SBAM's Aggressive Growth Team, including that the team is led by senior portfolio manager Richard Freeman, who has 28 years of securities business experience. The Board also considered the biographies of the other members of SBAM's Aggressive Growth Team. The Board considered SBAM's aggressive growth strategy and how it compares to INVESCO's investment philosophy and style. The Board also considered a report from an independent evaluation service on SBAM. The Board concluded that SBAM had the capability to provide the necessary investment advisory services to the fund.

**Fees.** The Board considered the sub-advisory fee rate proposed under the Interim and the New Sub-Advisory Agreements. The Board considered that, although SBAM's fee rate is less than INVESCO's fee rate, the Advisor represented that there would be no diminution in services provided in connection with the Interim and the New Sub-Advisory Agreements. The Board concluded that the proposed sub-advisory fee rate was reasonable.

**Profitability.** The Board did not consider an estimated level of profit to SBAM under the Interim and the New Sub-Advisory Agreements. The Board considered that the sub-advisory fee rate was negotiated at arm's length between the Advisor and SBAM, and since SBAM would be paid by the Advisor, the Board, given the size of the fund, considered only the estimated profitability to the Advisor.

**Economies of Scale.** As part of its review of the investment management agreement with DeIM, the Board considered whether there will be economies of scale with respect to the proposed management of the fund and whether the fund will benefit from any economies of scale. The Board noted that the investment management agreement with DeIM included breakpoints and concluded that the overall structure was designed to share economies of scale with the shareholders.

**Other Benefits to SBAM.** The Board also considered the character and amount of other incidental benefits expected to be received by SBAM and its affiliates. The Board noted that, unlike INVESCO, SBAM agreed to adhere to Deutsche Asset Management's soft dollar policy for the fund, which includes an agreement not to use fund brokerage transactions to pay for research services generated by parties other than the executing broker-dealer. The Board concluded that any incidental benefits to be received by SBAM from its relationship with the fund were reasonable.

Based on all of the information considered and the conclusions reached, the Board determined that the terms of the Interim and the New Sub-Advisory Agreements are fair and reasonable and that the Interim and the New Sub-Advisory Agreements are in the best interests of the fund.

# Notes

## About the Fund's Advisor

Scudder Investments is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Investment Management Americas Inc., Deutsche Asset Management Inc., Deutsche Asset Management Investment Services Ltd., Deutsche Bank Trust Company Americas and Scudder Trust Company.

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